AMERICAN CITIES

THEIR METHODS OF BUSINESS

By

Arthur Benson Gilbert

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PREFACE

The improvement of the means of communication between different parts of the nation and between nations, has developed a strong competition between cities as a whole rather than simply between the citizens of different cities. More and more business fails or succeeds because of the city which harbors it. Where a man takes goods to the market, he takes with him his city with its good and bad influences. The city conditions under which he has prepared his goods for the market may make him successful over others or they may bring defeat.

The great problem of city promotion is just this new need to make the city an efficient partner with its business rather than an undirected force acting on that business. That problem is to make use of the city with its multitude of possibilities in what H. G. Wells calls "the every day drama of human getting." But business success, of course, is no more the whole field of city promotion than the individual income is the whole problem of the individual. Every science and art has a relation to city development.

In the near future the American city is going to be

more than just a miscellaneous group of people. It is going to become a powerful force making for the business success of its citizens. Success in augmenting the flow of prosperity to the city will in turn stimulate the artistic, the cultural, for with such success comes greater hope, greater faith in the future, greater freedom from total absorbtion in the mere problem of getting. The whole trend of business life is forcing this development, but by proper community thought and action, these favorable conditions can be achieved much earlier.

This book is sent forth with the hope that it may help to concentrate attention on the possibilities of constructive city evolution. The aim has been to express briefly a philosophy of city improvement — not a statement of the utmost that can be hoped for, the ideal city, but the methods by which directed improvement can begin, the path along which real improvement must travel, the means by which the ideal, if it ever be reached, will be reached. It is hoped that this philosophy will help in bringing together all those groups of citizens who will gain by real city promotion but who are more or less separated now from supposed differences in interest, and that it will help to isolate those interests hostile to fundamental improvement.

The author is chiefly indebted to the teachings and

influence of Tom L. Johnson, the late Mayor of Cleveland, Ohio, the first man in the United States to grasp clearly the principles by which cities must be promoted. Converted first by the works of Henry George, this great pioneer devoted himself utterly to the task of human betterment, so wonderful did the prospect of this task appear once its principles were grasped. Johnson, with his intimate understanding of business and his association with large business of his day, was able to round out a philosophy of city development that comprised all essential factors. If his principles had received more publicity, if he had not been opposed so bitterly by a congealed conservatism that was nation wide and that controlled nearly all avenues to public opinion, American cities would now be years ahead of their present development. But the force of events has cracked this crust of conservatism. Conservatism has simply delayed the application of correct principles rather than strangled them for all time. The Johnson principles that made Cleveland the best city in his time in the United States, must soon receive universal recognition. There is scarcely a point of importance in this book for which I am not indebted to either Mr. Johnson or a fellow disciple of his, Mr. W. G. Osborn.

A. B. GILBERT.

St. Paul, Minnesota.
March 1, 1918.

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CHAPTER I

THE GROWING INTEREST IN CITY PROMOTION

The twentieth century shows no more marked change than that in our attitude toward the city. The apathy of previous years has given way to interest, and among the more progressive, to a very active interest in studying and molding city conditions. This new importance which alert citizens are attaching to the city is manifested in several different ways: there is a great and growing demand for the readjustment of city government; the scope of the work of the city government is being greatly enlarged not only in practice but in the thinking of the business man about his city; almost every city large enough to come within the classification set by the Bureau of the Census, has its commercial club to which every business man of any importance in the town contributes liberally in dues and somewhat in personal effort; the rapid growth of

certain cities and the retardation of others are being given serious study.

THE CHANGE IN INTEREST TAKEN

The business men, and we might say the entire body of citizens, are not only taking an increased interest in city affairs but an interest that is different to a marked degree from that which they were taking until recently. No one who has made much of a study of the American city, can fail to realize that, in the order of things now being supplanted, only those who had certain obvious gains to make from the city activity or lack of city activity (in other words, special privilege) took any interest in city affairs, and that the great mass of the citizens, including the bulk of the business men, took little or no interest in their city and allowed those who had special interests to manage it to suit themselves. We know, of course, that this era in city government has by no means passed; it still holds more or less tenaciously in every city of the United States; but the significant thing is that there is an extensive movement in another direction. The average citizen and the average business man is coming to realize that the city may mean a great deal to him as well as to the special interests even though the connection is not quite so obvious, and he is also realizing that the few

who have obtained special favors from the city may be hostile to his own economic and social welfare.

This difference of attitude is by no means entirely conscious. The facts and mis-statements, the correct and the incorrect hypotheses about city life, the local peculiarities, and the personal elements and interests, are so confusing that only the more progressive have reasoned their way through to any clear principle such as I have mentioned above. A great many have their minds focused upon specific city problems or abuses which they are trying to solve; some, superficially at least, are interested solely in the philanthropic or welfare aspect of city life; others are interested in the more obvious evidences of vice, crime and degeneration; and still others see city problems chiefly in the light of city beautification. It is one of the peculiarities of human life that the mass of people in the midst of a great movement do not discern clearly what is going on, and it is not at all surprising that people living in the midst of the great movement for city development, and taking part in it, should fail to grasp the movement fully and clearly. Greater progress could be made, of course, if the people did realize clearly what the movement really means, because they could then eliminate a great deal of the working of cross-purposes, a great many of the false steps, and

could throw their whole strength in the right direction.

This change of attitude, especially on the part of the average business man, can be better understood if we can find some logical, driving reason for it in the nature of business as it is carried on at the present time. It need not be a reason about which the business man is entirely conscious, but it must be one sufficient to force a reversal of attitude. It is by no means logical to assume that the characters of people have changed so radically in recent years as to turn them from apathy to active interest or to transform what might appear to be the selfish indifference of the former generation into altruism in the present. Something in the environment and the methods of earning a livelihood must have changed. A great deal of progress and change has been made in the technical methods of doing business, and although these changes must have had a great influence upon our thinking, they do not furnish a satisfactory explanation; there is a complementary and perhaps a much more plausible explanation to be found in the progress in business organization as distinguished from technical progress.

BUSINESS DIFFERENTIALS

To the individual business man or organization it is most important to have a differential or differentials

which will enable him to place his goods on the market a little more favorably than is possible for his competitors, or better, than is possible for the majority of his competitors. Differentials are sought by all business men, for the object of business activity is normally and rightly the increase of proprietorship, and the differentials make these increases possible. If there is no differential, the profit (the increase of this year's property over that possessed in the preceding year) disappears. It is a well understood fact, I believe, that not all the agents in a certain field of production can have profits over a period of any length. We find them divided into four classes: the very successful, the moderately successful, those breaking even, and those going behind. Those in the first class have large differentials; those in the second very few or minor differentials; and those in the third and fourth classes none of any value. The differentials may consist of superior managing power, superior labor supply, superior organization, better location, etc. Under competitive conditions these differentials are being continuously assaulted and must break down and disappear in time unless a hard and fast monopoly can be established. The competitors are ever trying to acquire the coveted knowledge, the desirable location, the better organization, and the better labor, and inas-

much as these are not monopolized, they become common property. When they become common property, their value as profit producers is lost, and the progressive must find new means to profits.

Up to about 1860 the prevailing business organizations were the sole proprietorship and the partnership, forms of organization that have decided limitations in the business world. The stock company form then came into extensive use, and for a considerable period the corporation form of organization and the technical progress made furnished strong differentials in business activity. In time, however, the corporate form was so thoroughly established that it yielded little or no advantage in competition; it became a means of staying in business rather than a differential.

Again, beginning about 1820 the little capitalism of the preceding years developed rapidly into what might be called middle capitalism through the remarkable increase in industrial opportunities and the larger scale of operation made possible by the stock company organization. The capital needed by such enterprises as railroading and steamboat operation was far beyond what the single enterpriser or the partnership could furnish. After the Civil War this middle capitalism grew rapidly into what is known as high capitalism or big business. By 1875 its possibilities were ap-

parent to both friends and foes and by 1912 or perhaps before high capitalism had reached its zenith. By that time practically all lines of business readily consolidated by big business methods had been so consolidated and had become practically intolerable to non-consolidated business and the people. Those controlling big business, on the other hand, had reached the limit of profit making by issuing bonds and stocks and could make further profits only by waiting for the country to grow and by pushing internal economy of operation.

Those large business men who were unwilling to be content with monopoly profits, seized upon the next great impulse in the business world — the efficiency philosophy. Of those operating on a small scale the wide awake seized it as a new way out and the others have been gradually forced to apply it by the competition in their own lines and by the ever increasing monopoly prices charged by consolidated enterprises furnishing supplies. The more progressive who saw the possibilities of differentials in the efficiency movement and seized them, have been able to add greatly to their net profits. This philosophy, however, is fast becoming common knowledge, and as it becomes common knowledge, the differentials that sprung from it disappear. Like the corporate form of organiza-

tion, it too becomes not so much a source of profits as a means of staying in business.

CITY DIFFERENTIALS

The problem of the progressive business man in a field that has not been monopolized, is to find another source of differentials, and in this more or less conscious quest he is turning to the city in which his business is located for help. For certain groups of business men to receive special help or favors from the public through its government, whether the government be city, state, or national, is no new method, as we may recall from what has been obtained by those who have secured franchises, lands, and money for public utilities, and from what has been obtained by those who have sought favoring tariffs; such activities are essentially those of the older order. Rather the present movement is in the opposite direction because the progressive business man, not definitely associated with a public utility, has nothing to gain and much to lose by this course. His possible differentials lie in making the city a more efficient and consequently a cheaper place in which to produce goods. If the city in which he is located does not appear to offer advantages which his competitors in other cities have, he seeks out another city as a location. To move an

industry of any size, however, to another city is a tremendous undertaking, and the average business man would rather see what could be done in the way of improving the opportunities in his own city to going elsewhere. He becomes vitally interested in the cost of doing business in his city, and in proportion as he sees the issue clearly does he oppose those city methods that raise these costs and favor those city methods or activities that tend to lower them.

In the necessity and the striving for new differentials we have, I believe, the compelling motive for the new and radically different interest in city affairs. No one who runs over a profit and loss statement of a factory with the thought in mind, can fail to realize how greatly the costs of doing business are influenced by city conditions: materials, with the inward freight and cartage, labor, heat, light, power, rent, taxes, insurance, and the freight outward — the large items in any such statement depend very largely on the city conditions, and to a much less extent than is commonly supposed on what goes on within the four walls of the factory. At almost every point at which the progressive enterpriser attempts to run down his cost of doing business, he meets the stone wall of city conditions. In the older way of regarding city affairs these city costs were looked upon as something absolute and determined by

the laws of nature or by Providence, and it was thought that the individual was helpless before them. The thought that is coming into prominence, on the other hand, is that these city conditions are not fixed and absolute, but can be materially altered for the better by well-directed collective activity of the citizens.

The movement in this direction has reached different stages of development in different cities. In many, especially in the German cities, we find it fairly well developed and a fairly clear consciousness of the end and means among the citizens; in others scarcely a beginning among the few has been made. Business men are commonly active in commercial club work and in their city government without a definite realization of the end to be sought; more commonly still, they are almost completely at sea as to the means or methods of accomplishing the desired end. Such a situation is entirely natural because city promotion is an applied science by itself, different in many respects from business as now carried on, and men whose experience is limited to the business field would naturally carry over into this work the experience, the theories, and the notions gleaned from the business field.

City promotion, to be of any use in furnishing differentials to the business man, must be made an applied science. There must be the definite, concrete end in

view and well-reasoned, tested methods for reaching this end. We must know the end before we can direct our activities efficiently, and the means of reaching this end must be made a matter of scientific thoroughness. Is it possible to develop such an applied science? There is strong reason for believing that it is, inasmuch as a great deal has been done that closely approaches the demands of an applied science, and that would lead us to believe that the problem is chiefly one of focusing attention upon the proper end and devising scientific methods for reaching that end.

This new interest taken by the business man and the average citizen in his city government, gives good reason for expecting that in time, after many mistakes and misdirected effort and part success, the business man will come to have as firm a grasp of city promotion as a differential producer as he now has of his own business. The past, however, out of which the better knowledge grows, survives with us and impels its limitations. There are still gains to be made from the corporation form of organization and still more from efficiency, and these possibilities must keep a large portion of our business men from seeing clearly the possibilities in this new source of differentials. Great numbers of men remain who have given no more than lip service to the efficiency philosophy and they

must go through this step at least before they are ready to deal scientifically with city promotion. Also there remain those who have controlled our cities and are consequently adverse to any serious change in city activity.

There are no definite boundaries to movements such as the historians and economists mark out for convenience in teaching; rather several movements or groups of thought exist at the same time as somewhat in the manner different types of trees survive side by side in a forest until after long struggle one gains the mastery. Such is my meaning in speaking of the new movement to promote cities. In a few cities it is fairly well recognized; in many more it is struggling to the light; and in the majority the beginnings have scarcely been made among the more progressive citizens. It concerns what the most progressive persons who have gotten about all that can be obtained from private efficiency and initiative, are thinking about their respective cities.

Practically the corporate form and the efficiency movement have been means of meeting and surpassing competitors, and the thought may naturally arise that differentials produced by the conscious activity of a city, may pass away quickly also under the stress of competition. City differentials undoubtedly wear out

as do those produced by other means; in fact where cities are not consciously working to better differentials in a scientific manner, there are forces within the city that quickly neutralize nearly all its advantages. City differentials when scientifically produced and maintained will last longer than those obtained through the corporate form or the efficiency movement. They are necessarily of much slower growth. Frederick Taylor, the father of the efficiency movement, emphasized strongly that a factory of any size could not be put on a thorough efficiency basis in less than two years, and it is easy to see that to put a city, with its vitally varying interests and its lack of concentrated power, on an efficiency basis of the kind suggested would take a much longer period. The more progressive cities would be able to capitalize their progressiveness comparatively quickly and the cities that had little or no education in the right direction would be a long time in overtaking them. The possibilities of differentials through city promotion, also, are limited only by the capacity of men to work together for the common good, in other words their capacity for civilization. In fact there is good reason for believing that "inventions" in the city promotion field are possible, comparable at least to the inventions made in the technical world in the last one hundred and fifty years.

CHAPTER II

EXTERNAL COSTS

"I am calling these wastes as they now exist our industrial tragedy. The reason will be sufficiently clear, I think, for while they reduce profits, they also reduce the sum of human life and happiness."

HONORABLE WILLIAM C. REDFIELD.

IF we subtract from the selling price of an article all the costs or contributions which the seller makes to the article, we have the net profit of the transaction. This remainder is what we manufacture and buy and sell for; it is the objective of the applied science of private business. In the costs the seller must include a fair wage for his own services and a return on the capital invested equal to what the capital would earn in any other fairly safe investment, perhaps from four to six per cent.— depending on conditions. The land used must also be represented by rent even if the enterpriser owns the land. These costs and the factors that enter into their totals are almost infinite in number and are difficult to analyze.

Cost accounting, the applied science which attempts

this analysis, has developed only in recent years and still remains a mystery to at least half of the business world. For a long time, accounting which shows lump costs and the net profit, has been used, especially in England where it was well developed before 1860, but cost accounting is much different from this. It aims to analyze the many factors that enter into these lump costs — not to get the net profit because that can be found under the old system — but to discover leaks, to get exact knowledge by which better methods may be devised, and these better methods tested. Fundamentally it is no more than the application of scientific methods to the multitude of factors producing the sum total of business costs. Accurate records must be kept of the details from day to day; then these facts must be generalized and intelligence must be used to devise methods of reducing, if possible, the burdens which they reveal. A costly machine may be working only part time; a skilled man may be doing work an unskilled man could do; the wrong materials may be used, etc. This minute record of costs is the material on which the efficiency man works, supplemented, of course, with any useful knowledge that may be drawn from the sciences or other applied sciences. The old method was to guess at all these factors entering into costs, and the application of scientific methods to the

field has revealed possibilities of cost reduction unsuspected by the men of the old school — rather the greater part of the improvements devised by the new method are so contrary to the tradition and practice of the past that they may appear absurd, except to the initiated.

Splendid differentials have been obtained recently by developing efficient methods from accurate cost data and many are preaching cost accounting as the cure for the ills of private business; our trade papers are full of it; efficiency is more and more a household word. In the sense in which these persons understand efficiency and cost study, however, they furnish very short-lived differentials; they give nothing in the way of a patent or a natural monopoly; the new knowledge, if it produces greater profits, can spread quickly; as soon as any considerable number have achieved it, its differentials disappear; it becomes only a means of staying in business.

In another sense this cost study and the general efficiency movement give great promise. They are showing business men what costs are and how to analyze them; they are bringing over into the field of business the attitude of mind and the general methods that have been so valuable in the natural sciences, in medicine, and in engineering. They are taking the

guess out of business and by so much are making it easy for men to think in proper terms about business and about the promotion of cities. A man whose private business is all based on tradition, notion, past experience and guess, is poorly equipped to think scientifically about his city, but when once this man has taken these things out of his own business, he is fairly well prepared to carry the accurate methods to the next logical stage. This movement is furnishing the necessary background for city promotion, and by so much holds out great promise for the future.

The man who has turned seriously to a cost study of the conditions within his factory or store, finds soon that the many factors entering into the major groups of costs can be only partly influenced by his activity. He may bring his individual business to the highest point of efficiency possible within the four walls of his business and yet barely touch many of these factors. His studies, his analyses, his methods lead him out through his factory windows, so to speak, but he has no authority outside. Things out there must remain as they are, but he longs to get out and shake them up because he can see where a new method here and a new method there would lower his costs. These many costs can be easily traced out of the factory into the environment of his business, and once the business

man sees this connection he develops a desire to mold that environment more to his advantage.

At every point the cost analyst runs into the environment of the business — the greater part of which is the city. The profit and loss statement of a factory will generally contain the following costs:

Materials
Direct labor
Indirect labor
Superintendence
Freight, express and cartage
Light, heat and power
Rent
Insurance and taxes
Supplies
Depreciation
Alterations, repairs and renewals
Selling expenses

To these should be added interest on the investment, for unless the favorable balance more than covers this interest, there is no profit in the correct sense of the word.

In practically all these production costs, we can see where the city is an element of more or less im-

portance. The materials may be drawn from a distance without the city, but the freight rates to the city and the means of handling these materials within the borders of the city must be reckoned with before the materials reach the factory doors; the labor employed is an important variable; it may be good or poor, relative to the price paid. What is it that makes labor good or poor? The conditions within the factory, of course, have great influence and many enterprisers have had great success with remodeling these conditions. These same experts also know how far they have failed of complete success. The factory has one-third of the workman's time and the city the other two-thirds. What happens in this other two-thirds of the time has a direct bearing on the working time, and yet it is beyond the manager's control; the city and not he determines the two-thirds. Is the laborer warehoused in miserable quarters? Is the price of food so high that he is poorly nourished? Are there healthful recreation facilities so that when the worker comes on the job Tuesday morning, he is as fresh as on Monday morning? Are the schools preparing the students efficiently for work? Is the sum of these conditions forcing the worker lest he perish to clamor for ever higher and higher money wages? Such points

come to mind when we go a little way on the subject of labor efficiency.

In the list of costs, we see also the various services such as light, heat, and power which are coming to be more and more community services. Are those who run these to be allowed to absorb nearly all the advantages of large-scale production or are they to be real servants to the production of the city. Again the same may be said of transportation facilities, such as river fronts, lighterage service, tunnels, storage facilities, street railways. Then there is fire insurance, the basic rate for which is almost entirely a product of city conditions. There are the taxes direct and indirect which may be rightly or wrongly raised with reference to business development and which for business may be a burden or a splendid investment. Again there is the land which all business must have either by direct purchase or by rental. Is the price charged for this land so high as to neutralize most of the advantages of the city, and to discourage enlargement of the business, and if so why is such a price charged? Can it be proved that the productive business of the city gains by this neutralizing land value?

Once we launch on this quest of the external cost, a tremendous field of fruitful investigation is open to us. It is fruitful because it opens our eyes to the true na-

ture of the costs that keep the business of a city from growing as it might and because it gives a clear matter-of-fact approach to what have previously been most abstruse problems. The old method of approaching an economic question was to hide one's self in some quiet place, and after reading what many other quiet-place persons had guessed on the subject, make some new guesses. If these guesses happened to be rather cleverly conceived and the results agreed roughly with the current thought, the guesser was hailed as an economist. The formula for making an economist has been; choose a popular conclusion; then support this premise by a long chain of deductions from first principles; facts are of little or no importance. We would probably have to go on in this wasteful hit and miss fashion were it not for the great possibilities that cost studies open up to us. They at last produce the materials for making economics scientific. They give us the machinery for accurately promoting the desired economic end. Cost studies are the natural result of carrying the increasing scientific tendencies of the age over into the business field. Their first application was to promote the end of the private business — net profits for the owners of these businesses. In this field they are winning and it is a much easier step to carry them over into the thought about the city. It is a much

easier task for a boy to learn algebra after he has mastered arithmetic; in fact, algebra is an impossibility without the other as a background. So for the business man, being scientific about his own business is the big, hard step; having taken that it is easy for him to be scientific about the wider influences affecting his business. Accurate studies of external costs furnish the necessary background for this scientific thought. Added to this we have the material end to be worked for — the giving of differentials to the business of the city coming into competition with that from the outside. The two supply the essentials of an applied science of city promotion.

In one sense, cost studies are merely a means of meeting private competition. The methods have given some clever men the means to outstrip competitors. As such, their benefits as differential producers are short lived. In the other sense here indicated, they are the means of accurate thought on the city. Individual efficiency can be countered by individual efficiency, but the business man without the help of his city, state, and nation is lost in the competition with those who are favored by strenuous slashes in external costs by the city, state, and nation. Let us not make the mistake of thinking that certain external costs and

certain possible reductions in them do not amount to much. A few cents per ton may be the difference between a wide and a narrow market; likewise a half cent per gross or a hundredth of one per cent. in value. As transportation facilities improve and as buying is done on an increasingly larger scale, markets will be won on smaller and smaller margins. A little more lowering of costs through intelligent city action — through the city's acting as a unit to reduce the costs of its productive business — than is to be found in the cities of competitors, will give the city's business great market extensions.

To a great many who have given attention to cost studies the philosophy of external costs needs only to be briefly stated to be appreciated. To many it is only another term for what has been in their minds generally for a long time. It is a term summing up a new impulse that is appealing to rapidly increasing numbers. There is nothing essentially new about it except in the sense that it is gaining recognition. It is gaining recognition only because it represents something profoundly useful and because to ignore these external costs is going to mean sharp, definite, matter-of-fact defeats in business.

THE WHOLE COST

Together with the failure to analyze certain specific costs, there is the common failure to consider the whole cost. Both of these are absolutely essential to intelligent decision either in public or private business. We cannot foresee whether a certain improvement is worth while until we balance the whole cost of this improvement against possible returns. Two types of machine cannot be compared on their first costs. Into the comparison must enter such considerations as length of service, repairs necessary, quality of service, and expense of operation.

What folly, for instance, it would be for a city to compare two or more types of paving only on the direct cost of getting them on the street. Length of service, adaptability to present and future traffic, appearance, cost of repairs, cost of cleaning, etc., as well as first cost, must be included in the estimate. The formula, to be sure, becomes more involved but it approaches accuracy, whereas the "first cost" formula although simpler is a delusion. And yet first cost considerations only are precisely what the American people have been depending on since they were a people. Our practical, and worse our theoretical, economy is based on "first cost." A thing is called

cheap or dear depending on whether its first cost is low or high. The man willing to sell his services below another's price is considered the more desirable.

DEPRECIATION

The principle of depreciation, now being applied to private business, is an important part of external cost thinking. A grasp of the latter implies carrying attention to depreciation over into the field of city conditions. In private business, men commonly try to meet depreciation by ignoring it, but like the ghost of Banquo "it will not down." The Federal Trade Commission told us a year ago that about a half of our enterprisers were innocent of any regard for depreciation. The machine wears out and there is no provision in the business store house for replacing it; the building becomes old and what should have been set aside to build another has been scattered to the four winds as profits.

If such an attitude is common in private business, it is more common or rather almost universal in the thinking about the more remote field of city affairs. The otherwise fairly intelligent citizen believes that proper replacement does not have to be provided for what is used up; he believes that evils which assail the human factor do not have to be paid for. He

sees little objection to running the city after the manner of a one-crop farm year after year. But here again the ghost "will not down." Every cost arising out of city conditions must be met. If the payment is put off, it accumulates compound interest. In fact, thinking through the relation of the principle of depreciation to city production would expose many of our dangerous social fallacies.

CHAPTER III

THE PROPER OBJECT FOR CITY PROMOTION

The proper treatment of any subject dealing with material factors demands scientific methods, the methods that have led to such valuable results in the sciences such as chemistry, biology, and geography, and in the applied sciences such as the various kinds of engineering. Only by these methods can accurate knowledge and the best methods for reaching desired ends be obtained. Any other methods involve too great a waste of time and means and energy to be seriously considered by us at the present time.

City promotion is essentially an applied science. It implies activity toward a certain end or certain ends; activity necessarily implies an objective and it is most important to decide what this objective should be. In true science there is no objective, but rather the scientist aims to arrive at the truth concerning certain groups of observed phenomena; in the applied science, on the other hand, the objective is all important because a change in objective may demand a revamping

of the entire body of usable facts and methods. An applied science of economics, for instance, having as its objective the maximum increase in the wealth of the king or the wealth of a small aristocratic class, would be almost entirely different from one in which the objective taken was the maximum increase in wealth of the majority of the nation. An applied science of city promotion demands first of all a choice of an objective, and second the drawing on all the other applied sciences and sciences for knowledge and methods that will be useful in working toward this end. It can be made an applied science because its field embraces almost entirely plain matters of fact and because it touches or involves human nature only in a general way, in such a way that it can be covered by accurate general statements. An individual may act in a most surprising fashion, but the probable actions of groups of people can be fairly accurately stated.

To assert that the city ought to furnish differentials to its business with the outside world and that all important community or collective activity should focus on this point as an end to be attained before the promotion of immaterial ends, such as happiness, religion, art, etc., can begin, would probably raise a storm of protest, especially from those who emphasize what we call the altruistic or cultural as distinguished from the

economic or utilitarian ends. The greater part of this protest, however, would spring from failure to realize the connection between the economic and the altruistic or cultural. Any improvement in the general moral tone and culture of the people must be preceded by an amelioration of the economic conditions of life, and the only serious question can be whether the economic end chosen is the one which will produce this desired economic improvement. There are many economic ends open to our selection, and whether or not the furnishing of differentials to the business with the outside world is the proper end for city promotion, depends not on whether an economic end is desirable but whether this economic end will yield the desired improvement of economic welfare to those who are making the choice.

It is most fortunate that the production of a city, state, or nation cannot increase rapidly without putting the emphasis on productive efficiency rather than on owning. In every country in the world where the emphasis is put by law and custom on the owning function, there is stagnation and gradual failure in the competitive struggle. Otherwise the world would remain permanently wretched for all but a very few of its inhabitants. Roger Babson, the well-known statistician, expresses this principle in another form when

he says, "The strength of the nation depends on the prosperity of the working classes." In a lecture in London over a year before the war he warned England and France that the only way to succeed in the competition with the Germans was to make the working classes more prosperous. If we seriously try to increase production, we must begin by giving greater promise to those engaged directly in production whether they be enterprisers, department managers, or skilled and unskilled workmen. These producers constitute so large a majority of the citizens that they practically are the nation.

If the few possessing the owning function on a large scale are allowed to get increasing control over producers, allotting them a smaller and smaller share, the national strength must relatively decline. The producers are pinched in supplies needed for personal efficiency; state help is denied them in such fields as education, taxation, and utility services; and the men with ability cannot start so readily on the new ventures which carry the nation forward rapidly. Those exercising the ownership function are unable to see the future of the first Ford car, the first aëroplane, or the first telephone; not until success is certain will they offer help. Prosperous producers on the other hand will have the means for experiment, and a state work-

ing for larger production will provide the machinery for protecting the producer in his new ideas and for giving him the advantages of their development.

The reverse of giving differentials to producers is that of giving differentials to ownership. The ownership function is necessarily exercised by less than all the citizens; the number becomes fewer as time goes on and the process reaches the beginning of its end when not only the land and goods come to be owned but the working people as well. While this point is being approached, national production and strength decline very rapidly although those exercising the owning function acquire more and more power and wealth. If the nation does not fall during this process, it must inevitably fail in competition with any virile people because the nation's production is so inefficient and because the human factor has terribly depreciated.

How are the methods for giving producers differentials rather than increasing burdens, to be discovered either in city, state, or nation? Obviously by scientific study of the physical facts. The results we aim at are material or should be, and the approach to them must be concrete, matter of fact, specific.

There is no excuse for our going behind what Professor Davenport calls the "market fact" and setting up "a social philosophy of ultimate appraisals." Lug-

ging metaphysics, religion, traditions into business science destroys it as a science or its usefulness in an applied science. It makes economists who ought to be able to tell us how to increase our production a group of incoherent babblers. These abstractions can be as safely introduced into medicine, geology, or engineering as into what we call economics or business science. Even justice is too dangerous a consideration to be forced into economics because justice is essentially man made; current interpretation of it depends on tradition and who is interpreting. We have the paradox that a vigorous pursuit of greater productive power will undoubtedly yield sound justice; whereas the direct pursuit of social justice will yield neither justice nor the desired economic betterment.

WHAT CITIES LIVE BY

Large differentials to their business with the outside world are precisely what cities, which are now forging ahead in business and population, are offering, although nearly all of these are as yet what might be called natural advantages as distinguished from those produced by conscious activity in city promotion. There are varying differentials, of course, offered by the different cities that are growing rapidly; in one, location only may be the factor; in another, location and labor

supply; in another still, location, labor supply, and favoring transportation facilities within and without the city; in fact it would be impossible to catalogue all the possible combinations. It is a stern fact — unassailable by any philosophy of city promotion built on idealism either in welfare, in morals, or in art — that when a city offers its goods, the means by which it lives, and maintains the multitude of desirable things in life the only question asked is: Can it offer a better combination of quality and price than is offered by other cities? This is a test that every city must pass if it is to continue to grow, and must pass with a high mark if it is to grow rapidly in business and in population. As with business agents a few cities are growing rapidly, many are just plodding along, and many are falling behind.

Cities live by their business life with the outside world and on this foundation build whatever superstructures of religion, culture, and morals their inclinations and their means allow. The applied science of city promotion must tell us how this foundation can be made as large and strong as possible.

WHY GROWTH IS NECESSARY

Growth is necessary. A growing population is at least one sign of health, because human life when

normally healthy tends to increase. The children ought to outnumber the parents. Unless economic success continues in proportion to or outstrips the growth in population, the growth leads to misery. No town can fail to provide for its normal increase of people without producing misery. It affects not merely the few but the whole population. Current orthodox economics holds that this misery is inevitable, but its dogma is the result of abstract thinking and an inheritance from the past rather than a principle established on scientific methods. There is not a menace of overpopulation in the United States but of underproduction, much of it artificially caused. The problem is how to make the city's production grow faster than the number of people; the greater the margin, the more successful the city.

Growth of the city is desirable because every increment to the size of the city, to the number of people and the size and kind of its business enterprises tends to lower production costs in the city. That this connection is not more striking is due to the fact that every city nurtures within itself the germs of its own destruction,— the monopoly interests that can keep a varying amount of this gain from growth from reaching productive business. In spite of these monopoly drains, however, productive business does even now

get some help from the growth of its city. No one builds a factory at a crossroads; those who have located large factories in competitive lines in small cities find it hard to meet the price of the factory in the large city. They miss so many of the business services that the large city furnishes because it is large and they pay higher prices for others because in the large city the magnitude of these services makes possible cheaper rates. Raw material may be had on shorter notice; repair work need not be sent out of town; skilled and unskilled labor is more readily available. The larger the city the easier it ought to be to earn a living and more in it.

Business is very largely complementary. The clothing business needs the dry goods business; the hardware business needs the grocer. A city in the West too small to have a good wholesale agricultural implement house, for instance, handicaps all the wholesale business it does have. A city with poor or no dry goods stores handicaps its clothing stores. People do not come or send to a town for one line of goods only and they patronize those cities giving them good market facilities in all their wants. A city too small to have good repair shops handicaps its factories. A city too small to have a traffic bureau and carload business with cities far and near handicaps all those business

men sending out freight. With increasing growth these handicaps and many others are removed one after another.

This differential of growth has such great possibilities that were the large city to curb those services which tend to become parasitic on productive business; were it to see that services to productive business were furnished at not much above a necessary efficient cost either by public or private management, the small city could not hope to meet its competition. The hope of the small city lies in the stupidity of the larger center of business and population. The greater integration of the various services possible in the large city would give differentials which the small city could not meet. There is no chance of reaching a point in these services where increasing scale of operations does not produce lower costs, providing the management continues efficient. The supplying of electric current, gas, or transportation or water to a city of 5,000,000 can be done more economically per unit than is possible in a city of 30,000. The surprising thing is that men in productive business in the large cities have not demanded greater reductions. The one service which is universally higher in the large city than in the small one is land on which to operate. The cost of this factor varies with the size in almost a

mathematical ratio. It is the most important of those monopoly factors which cause the enterpriser engaged in competitive production to lose so much of the natural differential in the size of his city that he frequently fails to recognize size as a differential producer at all.

Again, a city needs growth because the number of people within it that have all they desire of economic goods is so small as to be negligible. Every one practically wants more; nearly every one needs more. More can be secured only by greater success in competition with those of other cities. By adding to the volume of sales, more purchasing power can be obtained which can be used either in the gratification of wants or in adding to the tools of production. No matter to what class a person may belong growth of the city is a most desirable thing. Additional business does not hurt the business already in the city; it does not hurt those who work for wages, although the business and the wage earner may be hit by the overreaching of the monopoly factors. That they are hurt is not an argument against growth but against the unjust and inefficient appropriation of its advantages.

It may be possible to imagine hypothetical limits to city growth in population, but not even New York City among our cities is in any danger of reaching this

limit. The population of New York City is larger than it should be because of certain artificial conditions, prominent among which is the fact that most of our immigration is strained through it. Parts of it are artificially congested to the detriment of its business and its people. The easing up of some of these man-made conditions, however, would remove any of the so-called "danger of overpopulation." On the other hand no case can be made for the failure to grow. Materialism is not destroyed by making material success impossible. A thriving, steadily growing town, village, or city is a better place to live in and to work in than one just keeping up or going behind. The people have more faith in the future, more courage to undertake improvements of all kinds. We cannot imagine a city with too much business prosperity for the reason that there are no limits to human wants. The citizens of no city can ever reach a point where their wants are gratified. When human knowledge progresses a little farther and more attention is focused on the problem, we shall be able to measure a city's prosperity accurately and no danger of overdoing real prosperity will be imaginable.[1]

[1] Roger Babson, the statistical expert, has already worked out a plan for measuring a nation's prosperity as a basis for international representation.

WHAT IS PRODUCTIVE BUSINESS IN A CITY?

In America there is much talk about productive and predatory interests; yet there is the utmost confusion as to just what should be classed respectively under these terms. The radical may think of any business man getting a profit as predatory no matter how small that profit may be; on the other hand the man of large business interests probably reflects on the loan shark or the saloon keeper. No one confesses to being predatory because the private interest develops a philosophy which justifies and enables the predatory person to look his neighbor in the face with the artlessness of a child.

What is predatory, harmful, open to improvement depends entirely on the end to be worked for. If we accept the end suggested here (and this might be done temporarily at least for the sake of argument), the business which trades with the outside world or better produces goods which come into competition with goods produced elsewhere is the business to be favored. The city grows as it grows and languishes as it languishes. All other business activity of the citizens is service to this business. It must be made more serviceable if possible or if it is harmful it must be cast out. These services must be made the subject of special

study that they may be kept from charging more than is necessary to those competing with outside production. They are predatory as far as the welfare of the city is concerned as soon as their charges depart far from an efficient production cost. Many cities and now since the beginning of the great war several nations have found it advisable to take over many lines of what used to be private business because private enterprisers would not run them on the return deemed necessary by the government in promoting a larger end.

With the idea of furnishing differentials to those competing with the outside world in mind, all the various utilities appear as necessary burdens on productive business and not as things to be proud of because of the size of their profits. The city's progress depends on the strength of its first lines and not on the profits of those managing the commissary. The commissary must be so managed, however, that every aid possible can be given to this first line.

Business services find it very easy to slip from the service class to the predatory class. The natural, reasonable aim of men engaged in these services is to make as high a profit as possible. They not only take all the "traffic will bear" but frequently more through the rush for immediate profits as opposed to

long time gains. We cannot expect the business services to discipline themselves in the interests of the city. Rather those engaged in productive business must keep them subordinate.

Wholesale and retail business may fall in either the productive or the predatory class, depending on certain conditions. In so far as these lines of business cater to the wants of the city they are business services and in so far as they fail to furnish the city with supplies at advantageous prices they are predatory on business meeting outside competition. The furnishing of supplies must be so well handled as to give the business man competing with the outside world advantages. Highly profitable wholesale and retail shops are no more to be desired in themselves than highly profitable transportation companies. On the other hand wholesalers and retailers may help town growth by success in competition with other cities for outside trade. Likewise in the rural communities the profitableness of the farming is more important than and should take precedence over the local retailing.

HOW THIS END CAN BE MEASURED

The business of the city can be measured as the private enterpriser takes stock of his possessions and his profits. It is impossible to get such a statement

from one of our cities now, however, because the statistics gathered so far have not been accumulated with this object in view. The costs in the various directions in which differentials are sought, can be measured and the results compared roughly at least with those of other cities; also with those previously existing in the city. Comparison with the past would be, perhaps, more fruitful because the city would be working with its own figures and because it would show clearly the success of the methods used. In comparisons with the past, of course, allowances must be made for fluctuations in the purchasing power of money. Second, there is the measure of the volume of things produced in competition with the outside world. The greater the differentials the greater will be the volume of such business done. Both measurements are necessary because the work of lowering costs might be done so poorly as to overlook some factors that were able to absorb the gains made in other directions, and conversely the record of costs is needed to reveal the why and wherefore of gain or loss in volume. Either measure taken alone would probably lead to many false conclusions and consequently waste. For some time the measurements will probably have to be confined to the costs influenced by city conditions because of the difficulty in the present state of

business development to get nearly accurate figures on volume.

THE CITY AS A PRODUCER

Can the city appear as a unit in the field of production? Can it by conscious united activity give aid to those who are leading in its growth and by the same means restrain those who would neutralize its possibilities? That it has not done so is no reason why it cannot be done. Many cities of the world have made marked advance toward it and the producers of those cities are flourishing over their rivals in cities that cannot act as a unit.

The city as a unit in business means integration of many services to business which otherwise must be performed by each enterprise individually or by another business organization with necessary monopolistic tendencies. Integration of effort nearly always leads to marked saving provided that the management is at all intelligent; the assignment of a common task to a central organization is such an integration and leads to great savings. To illustrate, the city or commercial club can have a bureau gather exact knowledge on freight rates to serve all the business men needing such expert knowledge; without this bureau each business house must have its own at great expense

or, what is worse, proceed without accurate information. Wherever a private organization performs such a service, however, the tendency is for it to absorb nearly all the gain.

The private agency is useless for those many services for which there can be little or no present exchange value. They cannot live on altruism. Yet such services have an important relation to productive business. The business house cannot afford to fight violations of the law involving small sums, but a bureau could handle such with much profit to business because the small sums in the aggregate constitute an imposing figure. There can be no private enterprise to promote the general health and education yet these have most important reactions on productive power.

Business promotion may be divided into two parts: (1) the securing of new business; and (2) the reduction of the costs of getting the goods from the raw state in which they reach the city business men into the hands of the consumer. With the first the city can probably do comparatively little, although it would be rash to try to set limits to the possibilities of a city thoroughly enlightened on methods of city promotion. With the second division the city can do a great deal because city conditions enter so much into these costs, and it is in this field that the first

great advances will be made. The city can begin by acting as a unit in reducing these costs — one or two obvious costs at first — and as it gathers experience and momentum the work will go on more rapidly. There is no limit to the possibilities of effort in this direction in sight for American cities because as yet they have made only feeble beginnings. As has been said, the possibilities are limited only by the capacity of the citizens for civilization.

For the city to act as a unit in the productive field demands a considerable change in attitude toward city government — a change from the conception of the government as a thing that interferes to that of a friendly power; a change from government as the policeman to government as the producer of good things.

The policeman idea and the natural revolt from it has come down to us from the past when government was of, for, and by the few, and the many felt it not in acts of helpfulness but as an exacter, the thing that placed grievous burdens on men's shoulders. To them it was negative and to our forefathers in America the problem of liberty naturally seemed to be that of diminishing government. They had known no experience of government as an aid, as a producer. For a free people, however, this new conception of govern-

ment means no more than that they should do for themselves collectively what would be more expensive or even impossible to them as individuals.

The government practice in old Europe, while it shut the doors of economic opportunity to the many by promoting the income of the few, made much of non-economic ends for the majority. The method of promoting these was the police power. The aim was to make people good, religious, cultured, respectful to superiors and these non-material ends were mostly those repudiated by succeeding generations. These ends cannot be promoted by force because they depend entirely on personal attitude and development. If goodness, religion, and culture had to come as a result of force rather than as the spontaneous expression of persons free to choose, they would long ago have disappeared from the earth. About all the government can do directly for these ends is to use its police power to prevent one citizen from interfering with the lawful activities of other citizens. Such a function does not magnify the policeman.

As a means of developing goodness, religion, culture directly the government is everywhere a miserable failure, and this tyranny, this failure is what we have in mind when we speak of too much government, too much regulation. Is it not possible to develop more

clearly the counter conception — more or less dimly perceived in all countries past and present — of the government as a producer, as an aid in acquiring wealth, as helpful coöperative action toward better economic conditions, and consequently giving the citizens more freedom in pursuing the higher impulses?

The non-material ends in so far as they are sincere must depend on the free choice of the people. They must have sufficient merit to obtain support without force or subsidizing by the state. A people whose economic conditions are growing better naturally become more interested in these things. They have some energy not exhausted by the obtaining of a living and they have some surplus to devote to these higher ends. The heart of the people is naturally sound and the increase in opportunity for self-improvement results in increased personal interest. The higher ends are promoted indirectly by improving conditions; they are a by-product, not a product, of government activity.

The city is a political unit with definite powers and limits. It contains a large number of specialized economic services and many potential services coextensive with its boundaries. The persons in business in it make it their home and it practically circumscribes

their lives. It is a center around which gather the greater part of the factors affecting its productive business. In short it is the immediate environment of that business, with state and national conditions making up about all the remainder. The city is, therefore, a logical unit around which to group efforts to produce by united action differentials for the business of those who live within its borders.

CHAPTER IV

COST OF MATERIALS

ANY possible reduction in the cost of getting materials to the doors of the factory is, of course, a differential to the business needing them. This differential means larger net profits; it means wider markets; it means increase in the labor force; consequently, it means growth for the city. Roughly there are at least seven different factors of importance entering into the cost of materials:

1. What might be called "first costs"
2. Freight and cartage or transportation
3. Warehousing or storing
4. Knowledge of the markets
5. Insurance
6. Checking and other accounting
7. The unusable portion of the materials

In all of these factors city conditions enter to some extent, especially if we regard as a city condition the degree of coöperation existing among local enterprisers. Not only what is but what might be must be

considered, because the business of the growing city must be dynamic; it must contain elements of progress, of change for the better; it must look forward to possessing what the city does not now have.

FIRST COSTS

In the "first cost" of materials there are two important variable factors: Is there monopolization either forced through combination of ownership or through close coöperation of producers? If this is not the case, is the price higher than it might be because of bad methods in other parts? In several important kinds of commodities, the first has come to pass; the second is found in all others. There is a common condition amounting practically to monopoly in the fact that local supplies must cost the enterpriser about what it would cost him to bring these supplies from remote parts. It is no advantage to a city to have a coal mine near at hand, if the price charged is that of coal brought from a long distance. The producer gains very little by having water power at hand, if this water power is in other private hands.

That monopoly of natural resources is harmful to the business needing them does not need demonstration. It is possible to imagine a monopoly doing a minimum amount of harm if the monopoly were

shrewdly managed for long time profits, but there are no concrete instances. The monopoly having the power cannot keep from abusing it; it abstracts so much as to hurt its own net profits. A monopoly always oversteps, it always destroys a part of its profitable market. Also the incentive for improvement being lost, it fails to adopt the most efficient means of production. The business thinking of today and the immediate past has been so preoccupied by short time profits as opposed to long time profits, that when a typical business group obtain a monopoly, they run amuck with other business.

Practically all of these monopolies are beyond the jurisdiction of the city, and the city cannot adopt direct protective measures. The city is, however, an important part of public opinion in the larger units of the state and nation. Its citizens should formulate a definite policy on monopoly so that when its voice is heard in legislative halls, it could speak for the city's interest. A business man should know that monopoly interests ever try to become intrenched in political power as a means of keeping economic power and that this power is against him as a producer.

The city should likewise think through the problem of wasteful costs elsewhere and exert its influence in the larger unit for any steps which will lower these

costs. Our northern cities, for instance, lose if the agricultural methods of the South are poor. They lose advantages because mines are run badly on which they depend. It is most hopeful that there is this great positive interrelation of business in different parts; that the city has everything to lose by the backwardness or lack of prosperity of the country and vice versa. It is hopeful that the best exchange is an exchange of equivalent values. Otherwise, complementary producers would continue the attempt to "do" each other more than they foolishly do now.

Other things being equal, the "first cost" varies greatly with different purchasers in the city inasmuch as these purchasers buy in varying quantities and with varying knowledge of the markets. Quantity prices appear to rule everywhere in the raw material market, although it is considered policy to conceal them as much as possible in most lines. There is much discussion as to the ethics of quantity prices, as to whether the price per unit should be lower on a one-car or a ten-car order, and there is much to be said for and against the practice, but the city for the present, at least, must accept them as facts. In what ways can the city meet this situation for its business men? In an increasing number of cities, the business men are finding differentials by pooling orders. They get not

only a lower unit price and lower freight costs from their present market, but they can reach a larger market source frequently with their larger order. Also certain economies arising from using standards, testing goods, and checking can be obtained on a paying basis.

Henry Bruere, Chamberlain of City of New York, notes the following effect on the scope of the market produced by the substitution of central for department purchasing for New York City:

	By Individual Departments	*By Central Purchasing Committee*
Forage bids averaged.....	5	13
Meat and Poultry.....	6	12
Coal	7	35
Canned Goods and Groceries..	8	15
Cleaning Materials and Compounds	9	35
Hospital Apparatus, etc.....	40	65 [1]

The practice is on the increase because experience has demonstrated its value. Much of the success of chain stores and factory consolidations lies in larger quantity buying.

The usual arguments advanced against quantity buying by the city producers are not valid, because they involve the ignorance of the business men rather

[1] *American City*, January, 1916, p. 13.

than the profitableness of the method. It is most undesirable to oppose a method because the users are ignorant of how to use it, since if they know the real reason they can remove it. Manufacturer A will not buy with B because he is afraid B will gain a little more by it than he will; he is afraid of a secret commission or too much revelation of the needs of his own business. They go on paying more per unit than is necessary. Their mutual distrust, their inability to devise methods of quantity buying are aids to competitors. The market of the city is kept smaller than it might be.

FREIGHT AND CARTAGE

Of the many elements entering into the burden of freight and cartage, the following are of special significance:

1. The rates by rail and water
2. Terminal costs
3. Cartage distances and character of streets
4. Rate errors and overweighing
5. Delays in receiving shipment

That freight and cartage costs on materials can be reduced by city action and by the coöperation of the city producers directly, is not only most plausible but

is backed by thousands of successful attempts in this field. We know that these larger group activities can successfully cope with situations too hard for the individual. The whole world knows of how the city of Manchester, England, transformed itself from an inland town choking to death from bad transportation into a flourishing sea port. We know that Jacksonville, Florida, and Houston, Texas, have also become sea ports. On the other hand there are the many ports with natural facilities being strangled by the private ownership of the means of using these facilities — the shore fronts and the wharves. Again there are the discriminating rates against the city or the individual line of goods, and the abuses and mistakes of transportation companies which the individual can hardly correct.

Railroads can make or break towns and can make or break a certain enterprise and why our business men have been so apathetic to the abuses of this power will be one of the mysteries of the next generation. In Australia, Denmark, Switzerland, and Germany for many years the development of railroads has been forced to depend on the development of business and the railroads have been made subservient to the business welfare of the nation; in England on the other hand, and in the United States likewise, business de-

velopment has depended on the railroads. There can be no question as to which is the better policy in the light of experience.

The monopolization of transportation to and from the city, of the wharves, switching points, and tunnels has placed a great cost burden on the productive business of our cities — a burden that has not been so apparent to city men as it should be because of the richness of our natural resources and because all our cities have had about the same conditions in this respect. The forces that have this hold on the city business are naturally working for temporary profits; they are not so constituted as to reduce charges voluntarily to add to the city's growth. Several foreign countries have been able to develop traffic by inland waterways, but in the United States this means is everywhere a failure unless we can consider the Great Lakes. There can be no doubt that water transportation is cheaper for many kinds of goods; yet transportation is so in the grip of the railroads here that rivers and canals cannot be better used. The Mississippi and the Ohio are lined with little cities that might become flourishing ports like Frankfort on the Main; but instead their river traffic has continually declined for the last twenty years. In foreign trade, for instance, inland cities cannot have

much success without the best methods of water transportation the world knows of at their doors. The number of foreign and coastwise cities developing such efficiencies are becoming too numerous for old-fashioned, inland competition.

Important as the actual rates between points are, terminal costs are even more important both because of the amount of the cost, and because of the city's relation to them. It costs more to load a box on a car in Chicago than to transport it from Chicago to New York City. Under peace conditions it costs more to put a barrel into a steamship at New York City than to transport it from that port to Liverpool. Every city with poor railroad terminals and terminal handling facilities can probably urge or force the railroads to improve. It can by these and other means prevent that daily line up of teams and men waiting for a chance at the freight depot. It can provide municipal docks with the most efficient equipment for handling and storing water-borne freight.

The land booms of our cities and the speculative prices for land near the points at which railroads and ships discharge freight, have put many of the factories at costly distances from these points. The side tracks may run out to a factory so located but the railroad makes a switching charge for a shipment under a cer-

tain weight and much of the incoming and outgoing shipments have to be carted. The breaking up of land speculation will prevent such mistakes in location in the future and the poorly located factories in many cases would find moving in advisable. Every city should have its protected industrial section large enough to allow of considerable expansion and equipped with the best methods for transferring goods.

No one but an expert can determine now what the rate on a shipment of goods should be because of the length to which the development of special classification and commodity tariffs has proceeded. Except in the large centers the railroad freight agent does not have the equipment to determine actual rates, not to mention possible lack of expert knowledge. What the agent does is to set the rate sufficiently high to avoid discipline by the central office when it reviews the rate. Hence every city in which shippers are at all progressive, has a shippers' bureau with an expert in charge to whom matters of rates and routes can be referred. Under present conditions such a bureau is a great money saver but it is nevertheless one of the little thought of burdens of transportation furnished by private capital. Overweights are common where the weighing is not done under the supervision of both

railroads and shippers or by a neutral acceptable to both parties.

KNOWLEDGE OF THE MARKETS

Knowledge of the markets is regarded by all as important, and nearly all business men aim to increase their knowledge of them but, except in a limited sense, only a few of the largest manufacturers and large bankers have any scientific knowledge of markets. The average business man confines himself to present quotations and buys where he gets the best present prices. He does not know the larger market movements. Perhaps to keep in touch with these is beyond the power of the individual producer on a smaller scale. Does this mean, however, that he must remain helpless, the sport of chance, the plaything of these larger market movements?

Several agencies have developed remarkable services to business men on the larger market movements. We have Babson's Statistical Organization, Moody's Investors Service, and Brookmire's Economic Service, all based on the scientific use of statistics and the accurate balancing of the many factors that determine the trend of the markets. So far such studies have been used by the alert business man in forecasting

the stock and bond market, but they have been little used by the producer. Yet knowing the probable trend of the market is fully as important in the purchase of commodities as in the purchase of stocks. There is a time to load up with raw materials, and a time to buy as sparingly as possible.

There has been a depression approximately every four years, or better, there is a definite business cycle completed in about that time. Acute depression is followed by a slow revival of business; then comes a period of fair prosperity of some length; next the prosperity rises to a feverish point; and finally there is the sudden drop to acute depression. If a certain manufacturer knew about what to expect in the market movements in the coming year, he could so buy in a period of increasing prosperity as to greatly add to his profits and likewise prepare for falling prices by cleaning out his stock in time.

As business is to-day these larger market movements are left to guess-work and tips. The history has been that the great majority of the buyers of commodities are rushing into the market just before the break and are keeping out at the most profitable period — that following the acute crisis. The large operators do just the opposite because they know these market movements better. A better knowledge of markets

would enable the general public to keep from contributing enormously to the profits of the larger operators. In fact the more widespread the scientific knowledge of markets becomes, the less acute will be our business cycles. The peak of prosperity will be leveled off and the gully of acute depression will be filled up. Our panics are made more acute because the business men are wildcat speculators as to market movements.

The grasp of market movements entails an immense accumulation of statistics, ability to read them correctly, and an understanding of the economics of production and consumption. Aside from drawing on what the private services have to offer, a buying pool of business men could accumulate independent data on a large scale and they could probably well afford an expert to study markets in connection with the quantity buying. Any efforts in this direction would render them less and less the subject of chance in their buying. Knowledge of the larger market movements will be one of the distinguishing marks of the new business as opposed to the old. Many will find important differentials in it until it is widely diffused. Productive business will gain increasingly by its growth, for with generally diffused knowledge of the markets and the gradual removal of other business maladjustments

that contribute to crises we may expect to free ourselves of crises.

INSURANCE

Insurance, especially fire insurance, has reached a high stage of technical development, but the means of getting it to the policy holders embodies some of the worst inefficiencies of our modern business. On the average only 58 to 60 per cent. of the fire insurance premiums received is paid out again to cover losses. Forty-two per cent. is absorbed by costs of doing business plus profits. Yet what is insurance but a common fund contributed to by those exposed to risk, out of which the losses incurred are to be paid? The problem of estimating the probable loss ratio is the only point in insurance of any technical difficulty, and our increasing fund of recorded experience is rapidly reducing the possibilities of expert error in that. The remainder of the insurance business is simple investment banking and policy selling. Why then should productive business continue to bear the tremendous selling expenses of insurance companies? Four or more times as many solicitors are now busy hunting up trade as are really needed and selling something that every one takes as a matter of course. Very

large industrial corporations such as E. I. Du Pont De Nemours & Co. are cutting this cost by carrying their own insurance; public corporations, the State of Minnesota for instance, are adopting the plan. Before many years have passed we shall probably have devised means of eliminating nearly all of this top-heavy selling expense of insurance for small business units also.

The reduction of the risks to be covered by the common insurance fund is a field of great promise, for here American cities have been very backward. Instead of cutting fire hazards, the American city adds to fire department expense and pays higher insurance. The cities of England, Germany, France have only a fraction of our fire loss, on the other hand, because they put their risk reduction first. We do the opposite rather than interfere with the so-called right of any citizen to build what he pleases on his own land and to use his own building in any way he desires. We do this because $100,000 of public expenditure looks larger than the $500,000 or the $1,000,000 the private citizens pay to cover removable risks. But indifference or lack of business sense is not the only cause. The Insurance Department of the State of Minnesota recently sent out men to tell small cities how they

could lower their risks and consequently lower their rates — for instance, from $1.12 to $.80 per $100. The large insurance companies, however, had sufficient power over the governor and others to order this splendid work stopped. Risk removal saves more than insurance premiums because few or none can afford to have a fire even when they have taken the maximum of insurance.

TESTING, UTILIZING WASTES, ETC.

The producers in any city of over 10,000 at least can afford a bureau for testing materials received, materials in process, and for investigating the possibilities of utilizing the discarded materials or wastes. The larger industrial companies now maintain their own departments of this kind, and the small factory must find the means of getting a similar service. The eye and the hand are no longer adequate to determine the quality of materials purchased. The coal, the iron and steel, the glue, the flour need also chemical analysis. Furthermore, in nearly every form of production, expert analysis is valuable in the process of manufacturing, for only thus can many of the inefficiencies be caught in time to prevent serious loss. The sellers of materials know what factories are checking, weighing, and testing materials, and they give their short weights

and inferior goods to those who are not practicing the modern methods. Large manufacturing units can provide themselves with this aid; small units must look to city aid and coöperation.

CHAPTER V

LABOR COSTS

Labor costs are generally equal to or greater than the cost of materials, the relative amounts varying, of course, with different fields of manufacture. We should include in labor costs not merely the manual labor and the lower grades of office labor, but rather the returns to all persons who render services to the process from the purchase of raw materials to the sales to outside parties. It should not mean wage rate but the price of human service per unit of production. It must be considered in terms of product and not the rates of day wages. Labor at one dollar a day may easily be more expensive than labor at two dollars a day; again to say that one enterpriser pays the same rate of wages as another does not imply that their labor costs are the same. Until very recently, however, practically all discussions of labor costs were based upon wage rates with the result that most important conclusions were drawn from this erroneous data. In his "Cost Reports for Executives," p. 146, Franklin remarks on this error as follows:

"A cost system is an encourager of high wages. There is, in many plants, an opposition to high wages due to the belief that increasing wages necessarily mean increasing cost. Of course under certain conditions, as the horizontal wage increase, this is so, but a study of the detailed wage situation through the cost system will almost invariably show, under the right manufacturing conditions, that the earners of the highest wages are the producers of the lowest unit cost."

The assumption of classical economists has been that the labor unit, or human being, was a fixed and definite thing, somewhat like a ton of coal, or a yard of cloth, and that consequently those enterprisers were most fortunate who secured these units at the lowest unit price. There was little recognition until the efficiency movement was well started that a labor unit is not such a commodity but a going machine, and that this machine is capable of wider variation in value of product than the inanimate machines, such as the steam engine or the automobile.

TWO THEORIES OF LABOR COST

Lower labor costs furnish a strong differential in productive business because of the relative importance of this cost. The question is not so much whether

it is well to reduce labor costs as to how the reduction should be made. There are roughly two general groups of thought on this point: 1. that noted above as being accepted by the classical economists consists in more or less arbitrarily keeping down the money wage; 2. the development of social aids to labor so as to produce a gradual improvement in the laborer's productive power without adding proportionately to the money wage. The first has been the general thought in such countries as England and the United States, expressing itself in the legislation of the nation and in the attitude of the individual employer toward the employee. The second theory has found expression in the legislation of the German Empire and especially with many individual enterprisers in all nations where the efficiency movement has been seriously considered.

Under the first theory it is advantageous to production to have a superfluity of labor units that competition between these units may force the price per unit to the lowest possible point. Whatever state activity or coöperative activity among enterprisers there may be in this field should be used to keep labor cheap for the benefit of business. This latter part is rarely stated in such frank fashion because it violates the popular conception of what is right, but it is, never-

theless, the necessary object of those who hold this theory. The free laborer in America has a unit value to business of practically zero, because if one of these units is lost another can be obtained for practically nothing to take his place; practically no country has regarded the emigration of labor power with anything approaching alarm or sense of economic loss. The only arguments that can be advanced for improving labor, with those who hold this theory, are appeals to philanthropy and self-sacrifice of the few for the greater number, and these appeals meet not only the self-interest of the enterprisers, but the Malthusian doctrine of population which holds that population increases so much faster than food supply that these unselfish activities can never be of much help in removing poverty.

Whether this first theory of labor costs is correct really depends on whether one labor unit of a certain kind is really equal to any other possible labor unit of this kind. If a well-fed laborer can do more work than a poorly fed laborer, it does not hold. If an intelligent laborer can do more work of the kind desired than one with little intelligence, the theory again falls down. If a laborer experiencing a general improvement of his condition is better fitted and more efficient than one experiencing a deterioration of conditions, we

must discard this theory. We must rather work for conditions which lead to a gradual improvement of the labor unit; we must learn to attach values to what has previously been without value in our practical thinking and practice.

The classical economist holds that production is furthered by increasing as much as possible the supply of capital through thrift or, better, the saving of consumption goods, that what is used by the laborer for food, clothing, shelter, and recreation is consumption goods, and that the less the laborers spend for these things the more capital there will be and consequently the more production. The second theory, on the other hand, holds that to keep from labor what is needed for labor efficiency and improvement is a drawback to production because efficient labor is most important for efficient production. It implies that without efficient labor, capital and land, the two other factors in production, are badly handicapped and that on the contrary with an efficient labor force capital rushes in to aid such labor in developing the natural resources.

The experience of the German Empire in the thirty years preceding the war, and the experience of our own enterprisers who have seriously adopted the efficiency philosophy, have undoubtedly proved the second theory to be correct, and it seems to be only a

question of time before competitors of those practicing their theory will either become converted or will be driven from the business field. Those working on the new theory find themselves in the happy position of having an improving labor force without paying as high a money wage as do their competitors; they find themselves getting an increasing return from the money paid out as wages.

CITY FACTORS IN LABOR COST

The enterprisers in our American cities can obtain relatively little, however, from individual efforts to improve the efficiency of their labor because such improvement is much more a community than a private matter, although they can obtain differentials over those who make no effort at labor improvement at all. The factory has control of the worker for one-third of the day, and the city has him for the other two-thirds. The city has entire control of him from the time of birth until he enters the factory. The city conditions determine the laborer's real wage, for wages must be interpreted in terms of rent, supplies, recreation, and social protection, and the real wages, of course, determine labor efficiency rather than nominal wages. In fact, there is no hope of improving labor efficiency through increasing the nominal wage; with-

out radical changes in city conditions the higher nominal wages merely slip through the laborer's hands as soon as any considerable number of laborers begin to receive them. For instance, the real estate values of the city of Detroit increased by fifty million dollars within a week or the value of the expected distribution for five years after the Ford Company announced its plan to make five dollars a day the minimum wage.[1] Henry Ford's plan would have been almost entirely discounted had there been a few other Fords in Detroit.

The economics of production are such that one industry can force others to help pay for its bad policies. The burden of the sweatshop that is profitable to the sweater, for instance, falls on all the business of the city. The city in fact pays more than the sweater fails to pay because the burden of deterioration is much greater than what is saved by the individual sweater in the process of forcing the deterioration. The " sweatshop " profit depends on being able to overdrive a group of workers for a short time and, when they are used up, starting with a fresh group. Thus a large human scrap heap is built up, out of which of necessity spring vice, crime, and disease; but out of which also must come a large part of the future labor force.

[1] Statement by Mr. Boyd Fisher of the Executives' Club of Detroit on the authority of the Ford Sociological Department.

This burden must be carried by those who can produce high real wages or the city deteriorates as a productive center like a farm from which as much as possible is taken out and nothing put back. The loss is little noticed because it is gradual, spread over a series of years.

The scrapping of human material is not a sudden phenomenon; its burden is spread over society and its real incidence is lost in the shuffle. The young people brought from the country life both from rural America and rural Europe (most of our immigrants are rural products) to industrial centers may have the stamina to endure unfavorable conditions for a long time, but they will be parents of the next generation of workers and this hard environment will mold these future workers. Men not only temporarily do poorer work because of burdensome conditions but even if this poorer work enables enterprisers to get by temporarily, in time this smaller success becomes impossible. In the future the city must expect to produce its own labor force; the country will send in relatively fewer laborers. The individual enterpriser must be drawn into this losing game unless by city action and coöperative action with his fellows the conditions of his labor can be gradually ameliorated.

The forces that tear down the worker's real wage

certainly cannot be overcome by individual action. The enterpriser cannot keep the utilities from charging the consumers all or more than the traffic will bear. Individually he cannot force the utility owners to seek their profit in large business on a small unit profit rather than in small business with a high unit profit; or better, see that common services are furnished without profit. Again in all positive private work for improvement he would lose by having other enterprisers take what he had built up and by the amount that would be saved by having these things done on a large scale rather than a small scale. If the enterpriser wishes better educated help, he must build up elaborate machinery for this of his own, he must meet the current expense, and when the end is achieved, other enterprisers will take away his better trained employees.

MOLDING THE ENVIRONMENT

I dwelt at some length on the two important theories of how to reduce labor costs, because when once we have decided this issue, the necessary procedure to be followed thereafter is relatively a simple matter. If it were true that an ever-replenishing supply of labor would come in and that once labor was scrapped we were through with it, then the older theory of our en-

terprisers would appear more plausible. But if we concede, as I believe we are forced to concede by the logic of experience, that the theory of gradually improving labor units is the one which leads to increasing productive powers, then we have chiefly the task of reorganizing the city environment of the laborer, adding positive factors and eliminating the negative. The environment of the worker may be roughly divided into five groups:

1. Food supply
2. Housing
3. Recreation
4. Education
5. Relief from calamities

But the whole environment must be considered, of course, for the citizen is the product of his whole environment. The real wages of the citizen in terms of this environment must show a constant upward curve. The object must be that the money wage paid by the employer represents the largest possible real wage for the employee — an object that can be successfully promoted only by city activity. In this the interests of the employers and the employed are one; they constitute a most logical combination against the business services that draw more than is good for the

growth of the city from its productive business. With this second theory of labor costs in mind it is fairly easy to see that all forces tending to lower the real wage of the worker are riding on the back of city production. Once this point of view is gained it is fairly easy to appraise the factors in the citizen's environment. It is easier to break down the justifications of those who profit at the expense of the real wage of the laborer. In fact this real wage becomes the criterion by which we pass judgment upon the factors in the city environment.

ALL GRADES OF LABOR MUST BE CONSIDERED

The problem is not one merely of improving the status of the lowest grade of labor, although such improvement is an important test of success. The condition of its unskilled workers is a fairly accurate test of a city's progress. But labor of all grades is susceptible of profitable improvement. The labor or human factor of the city from the point of view of industry may be divided into five groups:

The unskilled labor
The skilled labor
The office workers
The subordinate officers
The managers

It is easier to see what would be beneficial to the efficiency of the first group because the situation is simpler. The work the unskilled laborer does is simple; there are few requirements for it beyond health, strength, and intelligence of comparatively low order. To furnish the unskilled is not a city educational problem. For instance, the costs here are largely a matter of keeping man the animal in good shape. How to produce more efficient skilled labor and more efficient office workers, is more complicated. Such persons need a specialized education, they need more natural ability, they need a period of apprenticeship, their social needs are greater. We have here a finer mechanism, harder to produce and easier to harm by city conditions. These points are intensified with the subordinate officers and still more with the managers.

In proportion as intelligence is a factor in work, by so much more is it possible to secure efficiencies with the labor element through city activity. The community touches the higher grades of labor at more points; the higher grades react more noticeably to efficient methods; the higher grades of labor produce relatively more as society is at present constituted.

Again there is this most important point. Efficiency within the plant is nearly all management.

The superior and subordinate officers of a plant determine whether it is an advanced, a mediocre, or a failing institution; what the rest do or do not do will depend on them. Competition in organization and skill is hard to meet and very dangerous to cities not providing means for developing all the latent ability of this kind it possesses. How important it is then that the community do whatever it can to increase the ability and number of those able to perform the higher functions. To-day the development of the more capable types is on a hit or miss order; it cannot be called a plan or system because it is the absence of system. The city cashes in on only a small part of the latent ability of its citizens. Some few are able to get by with the handicaps that are placed on those who seek to advance, and there are many blanks that might, with fairer opportunity, have been leaders in the production process.

The point might be raised here that the five classes I have mentioned comprise about all the working force of the city and that city action for improving environment would really mean that these people in four of the classes at least would really be working through the city for themselves. It is a most important aspect of the situation. A free people must work intelligently through the city and city-wide means for their improve-

ment, for only by being superior in production can a free people maintain a superiority over societies not organized on that basis. Free institutions do not dispense with the need for efficiency, rather they make it possible for a people worthy to be free to rise to higher stages of efficiency than is possible to a people organized otherwise.

LABOR EXPLOITATION

The human factor is a wonderful source of exploitation for the city. It is the factor that is being most exploited by those who control the city at the present time. Exploitation has a bad odor; but the odor arises or should arise rather from the way in which it is done. To exploit means to draw out, and the whole matter hangs on who exploits and how. Under the strict feudalistic and capitalistic systems a few exploit the many, and they do the work so thoroughly, so far as they have the power, that the exploited deteriorate as productive factors; their physical and intellectual stamina declines. The few destroy themselves by destroying what they have to exploit. We have for instance a free Rome gradually turned into a slave- and serf-manned nation, unfit to hold a place in the world; an English mill town with workers unable to meet modern requirements; an American city with its slum

section into which is thrown wave upon wave of the population.

Productive business gains nothing by a deteriorating people; rather it has everything to gain by a people constantly improving in physical and intellectual power. Productive business, however, has seen the problem only from the angle of money or nominal wages and consequently has been hostile to many movements to ameliorate conditions for the mass of the workers. The exploiters of the natural resources press upon the mass of the people with increasing exactions and the people in turn must have higher wages or deteriorate. The employer in the productive field does not find himself in a position to pay increased wages, rather he feels an urge to hammer down wages as a part of his necessary cost.

Very few business men comparatively have seen the need of beating back the exploitive forces warring on their labor. The major reason for this attitude probably is the fact that until recently, at least, smaller business has accepted the leadership of what is called "big business." In some lines this big business has become so strong as to be able to pass from leadership to dictation. Little business meekly takes what is handed out as if it were being done a favor. The city chambers of commerce swallow the policies and the

propaganda of big business nearly whole. There is little recognition that business is not a love feast embracing all who buy and sell, that one kind of business may prey upon another, that in our so-called business we have developed men with giant powers as hostile to the productive business of the city as the robber barons of the Rhine were to the tribute-paying merchants of the Middle Ages.

Scientific city promotion will attain great results by intelligent exploitation. It will show clearly how differentials can be gained for productive business by loosing the economic shackles on the worker. Better housing, better food, better education, security through social insurance, will produce improved labor power. As these things are brought to pass, the business men in the productive field will reap increasing differentials. If the natural resources are socialized at the same time, then enterprisers will get the better labor at very much lower wage rates than those in less progressive cities are paying. The majority of the persons in business, including the humblest of the workers, have much to gain by such a program.

In it lies the great hope for the workingman of the future, namely: that the long period of ameliorating conditions and of education may prepare him to be his own exploiter through collective ownership of the tools

of production. Any one who has made much of a study of the workingman's mind knows, however, that such a day seems comparatively far off. The education developed through the socialization of natural resources and of other monopolies may nevertheless prepare him for this much faster than we can now think possible. In the meantime those capable of managing productive work can get an increased return during their lives at least by falling in with this evolution and hastening it rather than fighting it in the typically conservative fashion.

THE SUPPLY OF LABOR

Manufacturers as well as workmen are hard pressed by the almost total absence of constructive effort to develop competent workers. This problem is everywhere in America. Added to this is the maladjustment between such supply as there is and the demand, which constitutes one of the most important problems for the producer in the small city. Furthermore labor of much value cannot be shifted from one point to another like a banknote. Many forms of industry are now tied up to certain localities chiefly because these localities contain workmen skilled in the respective industries. The location of so much manufacturing requiring high grade mechanics in New England can

hardly be explained now on other grounds. Akron has become a great rubber goods center; Detroit a great automobile center; Grand Rapids a great furniture center.

In these and in other centers having specialties, it is relatively easy to find sufficient workers to man a factory; the most that would be necessary would be a little better factory conditions or better pay than some of the other factories offer. To locate a factory in a new city in which little or no work in the particular line has been done is a risky undertaking. The cost of bringing workers in, of educating the natives, of employing drifting workers is likely to overbalance better freight rates, nearness to market, in fact all the advantages the new location may offer. There is a similar labor differential in favor of the large center. In a city of a million or more it is possible to find workers of almost every type. The Jones factory in a city of 25,000 employing 150 skilled workers, loses men continually throughout the year even if it is a model factory. Where is it to find the workers necessary to keep up the force? If the factory is growing, the problem is intensified.

The city's relation to the industry here stands out clear and distinct. It can adapt its education work to meet the local means of livelihood and it can make it-

self more attractive to capable workers who might come in from other cities. Labor is, of course, somewhat immobile, that is, the more desirable, profitable kind, but a good city would certainly pull more than the poor city. The task of getting any considerable number of skilled New England workmen to migrate to the cities of Kentucky or Tennessee would probably be hopeless because of the relative conditions in the cities of those states. If the cities of the north central states wish to attract factories, they must add to their other differentials that of better conditions for skilled help than are found where the desired industries are now located. The conditions must be sufficiently better to make a compelling appeal. It is the price that must and ought to be paid for growth. All that the price entails is some foresight in city planning and curbing the services that would levy tribute on the workers. It would be unfortunate indeed if good labor could be lured by advertising and promises to the miserable conditions offered by many of our cities.

The city must offer more than churches; there must be cheap rents, cheap public utilities, facilities for healthful recreation, good schools, cheap food supplies. The working people think a great deal more of such factors than is commonly supposed. The commonly observed content with bad conditions is superficial, an

attempt to retain self-respect before others. Probably no one ever picked out depravity as a career; persons are forced or fall into it. Likewise labor never deliberately chooses bad conditions. The question as to whether a workingman shall leave a certain city for another is so frequently a matter of deliberate choice that the city must play up to him with tempting conditions. Again it is easy enough to attract vagrants; the problem is to draw the best.

The small city especially is in danger not only of failing to attract but of losing part of what it has. The typical small city run by a clique of old men for themselves frequently contains worse conditions for labor than the large, supposedly more wicked, city. Proportionately to population there are as many below the poverty line, and for those whose heads are above this line the small city offers much fewer choices in practically every matter of importance to the worker. Occupations are more limited; housing locations more limited; education more limited; recreation more limited. There are not only the natural limits but the limitations set by the disregard and smug proprieties of the small town grades of aristocracy. In practically every small city there is a large proportion of fairly capable workers, ever hoping that something will open up to enable them to get away, away especially to the

larger center. They are not seeking bad conditions and depravity but improvement. The typical small city thus offers its enterprisers a continuous adverse selection; it draws the inferior and it drives away the capable.

THE LABOR TURNOVER

Joined with the problem of supply is that of labor turnover. Turnover involves the number of hands that must be hired during the year to keep up a certain force. A high rate of turnover such as three to one is a frightful waste due in large measure to bad management but also in no small part to city conditions. To hire and fire or to lose labor eats rapidly into profits, especially where the labor is skilled. Only recently, however, have enterprisers given it much thought because to do so involves a grasp of modern theories of costs. In many industries even in the large cities it costs as much as a hundred dollars to replace a skilled workman. The new man must be found; he must become acquainted with the shop; he will probably make many mistakes; he needs more supervising; he may destroy a good deal before the foreman discovers that he is incompetent. Such are a few of the factors entering into this cost. Individual efficiency in man-

agement can, of course, do a great deal to keep down this cost (the Ford Motor Company furnishes a most successful instance), but it cannot do all. The city affects the labor turnover in so far as it fails to attract good workers and drives others away: the city affects it in whatever way its conditions tend to keep down the supply of efficient labor or to make what is available less efficient.

Labor turnover as a cost of production has been recognized so recently that only a few preliminary studies of it have been made. It is so much a nigger in the wood pile and its implications are so contrary to past thinking and practice that its significance is grasped with difficulty. The amateur in efficiency does not sense its importance or rather its existence. Yet for this very reason it offers great possibilities to the enterpriser with real talent and to the very progressive city. Here real vision will leave the competitors "sweating a mile and a half behind." The following excerpt from the Monthly Review of the U. S. Bureau of Labor Statistics, Vol. IV, p. 892, sets forth an interesting study of turnover cost, but its deduction appears to be regarded as entirely a shop matter and the conference apparently failed to realize that unimproved city conditions would largely thwart what success in-

dividual enterprisers might have as soon as any considerable percentage of the enterprises in the city began to have success in reducing this cost:

"Data as to the cost of labor turnover, as presented by Magnus W. Alexander, was based on an investigation of 12 metal manufacturing concerns in six States, conducted in 1912, the group employing an aggregate of 37,274 workers on January 1 and 43,971 on December 31. In securing the net increase in the labor force, amounting to 6,697 employees, it is stated that 42,571 people were hired and 35,874 were dropped out of employment for various reasons. Although theoretically only as many people ought to have been hired as were needed permanently to increase the force, practically certain allowances must be made which, based on certain considerations briefly set forth, the speaker suggested, may be assumed to include the following:

"One per cent. die; 4 per cent. are sick for sufficiently long periods to necessitate their replacement temporarily or permanently; 8 per cent. withdraw from service for unforeseen or unavoidable reasons or are discharged for justifiable causes; 8 per cent. are temporarily needed on account of normal fluctuation of production; and 80 per cent. constitutes a readily attainable efficiency of an employment department.

"Applying the factors above outlined to the problem in hand, it appears to follow that while theoretically only 6,697 employees should have been employed to allow for an increase of the working force by that number, the additional engagement of 13,843 persons, or a total engagement of 20,540 persons, would be justified to cover withdrawals by death, sickness, or resignation to allow for productive fluctu-

ations and for practical employment results and to cover the permanent increase in the force.

"Yet the fact is that 42,571 employees were engaged where the engagement of only 20,540 persons could readily be defended; 22,031 persons were therefore engaged above the apparently necessary requirements.

"Difficulty was found in evaluating this economic waste in terms of dollars and cents, the experience of managers varying widely — from $50 to $200 per employee. But the factors which contribute mainly to the cost of hiring and training a new employee were suggested as follows:

"Clerical work in connection with the hiring process, instruction of new employees by foremen and assistants, increased wear and tear of machinery and tools by new employees, reduced rate of production during early period of employment, and increased amount of spoiled work by new employees.

"No account is taken here of the reduced profits due to a reduced production, nor of the investment cost of increased equipment on account of the decreased productivity of machines on which new employees are being broken in.

"Applying an estimate of the cost of these factors to the establishments in question, the result shows that the apparently unnecessary engagement of 22,031 employees within one year in the 12 factories under investigation involved an economic waste of $831,030. This amount will be considerably greater and may reach a million dollars if the decrease of profits due to a reduced production and the increase of expense on account of an enlarged equipment investment are taken into consideration."

CHAPTER VI

THE LAND FACTOR

A DISCUSSION of the land factor in city production is complicated by the tendency of people to consider the term *land* as a synonym for *real estate*. Real estate, however, properly includes both land and all improvements of a permanent character, such as buildings, pipe connections, grading of the surface, and the removal of obstacles to cultivation and artificial improvement in fertility in the case of farm lands. An accurate, clear-cut distinction between these improvements and land itself is all important to scientific treatment of the land factor. On the other hand many think of the term land as including much less than it really does. It should mean not merely the bare surface of the unimproved land but also all natural resources, such as mineral wealth, natural advantages in climate, location, forest growth, and fertility; in short any natural facility which a certain piece of the earth has for general or specialized use is included in land.

The capitalization of these advantages constitutes

land value. In proportion as society needs these advantages, or finds larger uses or new uses, land values rise or decline. Land fronting a much-used harbor has a great value arising from its location; land in a district where men congregate to do business or live has a high value from its location. Farm land near the market has higher value than land of equal grade more remote. The development of improvements which make the use of certain land more profitable, adds to its value. In fact the statistics of the federal government if they can be considered approximately correct would indicate that land values and wealth of all kinds, including permanent improvements, break about even. In 1910 the total land value was put at $87,000,000,000, and all other wealth at about $85,000,000,000. In other words land values keep pace with the production of wealth. If we double our wealth we can expect at least a doubling of land values.

Land values in the true sense are to be measured not so much by what owners ask for land or even by what certain pieces may change hands for, but as by the income it brings or might bring to the owner. Owners commonly ask more than their land is worth at the present time; purchasers may be fooled into overpaying. This land income or rent is defined by Professor Seager thus: "Rent is the term given in economics to

the share of income that is assigned or paid to owners of land, sources of water power or other gifts of nature which assist production, for the use of these factors." This rent does not comprise, of course, what a man may pay for the use of a piece of real estate. What we call the rent of real estate includes the rent of land and the interest on the improvements, plus repair and depreciation. The price for the use of the improvements is limited by what it would cost to reproduce them, but the rent of the land depends on the demand for that particular piece of land. The cost of constructing a certain type of building in a large city would be approximately the same as that in a small city. Yet there would be a very wide difference in the amounts demanded for the use of these two pieces of real estate. The difference would be the difference in the rent of the respective pieces of land used.

Land must be regarded from the point of view of productive business. The traditional view is that it plays no part in fixing the price of a commodity on the market. In one sense this belief is true because it is a monopoly factor which takes its return after the price is determined and if the price is too high the producers have to turn to something else. But this view of land as a harmless factor at least is distinctly altered by two important facts.

One is that temporarily at least land owners as distinguished from land users are always overreaching; their normal attitude is that the users of land can pay more. Their economic object is to get about all the surplus or difference between selling prices and other costs and they will demand more than this through shortsightedness. When a man goes into business, he must give special consideration to the value of the site needed. He must have sufficient capital to pay for this site and to do all the other things necessary to make the venture a success. The venture will not be a success unless it pays an interest on the capital used to purchase the site or rent and meets the other costs with a little left over for profit. The cost of sites acts as a great deterrent or brake on new enterprise.

The second fact is that the use of land is a cost from the point of view of the city's production, a cost that must be covered before profits in production can be realized. What is paid for it goes outside of the productive business of the city. It goes to another element — those having the land owning function.

Assume, for instance, that the site values in a certain city in 1900 totaled $1,000,000, and in 1915 reached $2,000,000. The business of the city and its population, of course, have greatly increased during this fifteen years, but the cost of the use of the city land has

mounted rapidly. If this cost could have been held down, what a splendid differential it would have been for the city business! Again if these increased site values could have been transformed into city improvements, into lower taxes on business activities instead of going to site owners, what a bonus it would have been to the business of the city competing with the outside world! Other things being equal, as this site cost goes up the enterpriser and his labor must cut other costs in order to keep up. We have seen, however, that to cut into the return on capital drives it away, that to cut into housing conditions, into food and recreation of labor is to produce inefficiencies in this labor factor.

The question naturally arises: Is there any good reason for favoring land at the expense of these other productive forces? Land would not contribute a cent less to the productive power of the city if its return were cut in half or even forced to zero if by some means this reduction could be effected; whereas if the return to capital or to labor is forced down, these factors go elsewhere. Labor even if it cannot go elsewhere is made less efficient by a lower real wage.

Why does our present system of city life so favor the land owning function? The only strong reason is that our city producers have been poor business men;

they have not grasped the relation of the external costs to their business. In the first place we have taken our economic thought from England where the whole structure of life was determined by those having the land owning function, and this tradition is hard to escape from.

Accountants have found it difficult to explain to our business men why a fair return on land owned and used should be regarded as a part of the costs of production, and this is an elementary step. The fact that the enterpriser owns the land he uses, does not mean that the rent costs are lower than when land is rented because the enterpriser is surrendering what he might get from another party by renting this land, or from putting the money invested in the land in some other form of investment.

The land question is also confused by the fact that most persons who own land as well as use it, hope for speculative returns as land owners. This class of users identify themselves with the land owning element rather than with the other users but not owners of land. They tend to become interested more in the profitableness of land owning than in the returns from land using. Unless the individual land owning enterpriser has gone into land speculation on a large scale and is fortunate, however, he has much more to lose than to

gain by identifying himself with land owners. What his business needs is the use of land at as low a figure as possible and as many city helps or differentials as possible. A large part of this help would be low rentals to employees. His business needs abundant land. But these things are opposed by the landed interests. They are interested in low land taxes to give the land a higher temporary value and they line up against city developments for production.

Perhaps an illustration will show better the real position of the land owning enterpriser. A city of 25,000 population would have roughly a land value of $25,000,000. It might have 130 enterprises in production competing with the outside world. The enterprisers enjoy a period of prosperity which brings in 2000 people and adds $2,000,000 to the land value of the city. The land owning and using enterpriser may get a portion of this through the fact that he owns a piece of city land, but only a small portion. He can not realize it, however, until he sells out. The great part goes to those exercising the function of land owning. It goes to estates, to institutions depending on land revenue, to the idle rich — in short it largely goes out of the producers' hands. In England the land owners form a distinct class, the aristocracy, and their land owning enables them to levy tribute on all producers.

In American cities there is a marked tendency toward this concentration of land owning. Rather throughout America we are adding at a prodigious rate to the wealth of a class removed from productive activity and at the same time able to exact increasing returns from such activity by others. Most American cities are now in that condition where it is cheaper to rent than to buy not because landlords are essential to civilization but because the price asked for the land is speculative — beyond what it is worth at present. We have been drifting rapidly toward the English system by which the renter makes the improvements and these improvements revert to the site owner after a period of years.

Land values are roughly a barometer of the city's prosperity because nearly every advantage of the city is reflected in them. Some writers have asserted that land absorbs all city advantages but this is probably extreme. Improvement in transportation, increase in demand for products, lowering costs of all other kinds are reflected in the land values. When business is good, land values rise; when it falls off, they decline. The land values or better the prices for the use of land, serve to neutralize any advantages the city may have for the land users.

If these conclusions are correct, industry is paying to the land owners values out of proportion to its need.

In fact it is contracting an ever increasing debt which it must float out of its returns from production. In 1910 this debt was much greater than in 1900. Yet the land had not increased in quantity an acre; there were more natural resources in 1900 than in 1910. But in 1910 there were more people and more production. Industry must find it impossible to pay off this debt because it grows as fast as industry grows. The annual return which industry pays out on it goes to those who so far as they are land owners take no part in production. The fact that the land is owned by people within the country or city cannot give any direct help to the production of the city — rather the increments to land values enable many who would otherwise have to work to drop out. The increment to land value is something for nothing as far as the production of the city is concerned.

How much wiser it would be for producers to devise means of preventing this increment from falling into the land owners' hands and to keep it in industry as a differential which less wide awake cities would not offer. Not even the most jealous defender of our present land system would deny that other things being equal a city which threw the increment to land back into industry instead of into the land owners' pockets, would give its industry a great differential over that of

a rival which did not do this. The present system is defended on other grounds than the industrial or productive strength of the city. It is defended by precedent, on moral grounds, on religious grounds, on maintenance of power in a certain class, and on constitutional rights. There are those who consider such arguments, such defenses valid, and I do not wish to take up arms against them directly; my object is rather to show the relation of land to the productive power of the city and consequently its growth. In such a treatment all justification must be found in the future and not in the past, in the material economic field and not in the immaterial field or in the array of class against class. Further still I am not preaching what ought to be but setting forth the principle that a city can give its productive business a great differential by cutting out all hope of profit in its land. It can increase this differential further by gradually eliminating all land value that the owner now feels he has. Whether a city wants to grow sufficiently to take this step is another matter.

Once a city has decided to so help its people engaged in production, the means is a simple matter. Many cities are already taking a large part of the value that has accrued to land since a given date. Others are shifting the direct taxes from buildings and other prod-

ucts to the land. In time they will raise practically all taxes from the land and beyond that will go extensively into city activities of a general character such as better education and recreation to enable them to spend the increasing amounts that can be gathered in from land taxation when that is carried to the point where the land-holders' interest is practically nil. The movement has gone so far now that the conservative, although they may delay it, cannot head it off. As its results become noticeable in the business field, cities will have to adopt it rapidly to keep pace industrially.

THE COST OF HOLDING LAND IDLE

A great deal of the city land is held idle and a great deal put to inferior use because the owner does not properly estimate the cost of so holding it. Not all land speculation is profitable to the speculator by any means. There are probably almost as many blanks as successes. The usual cost reckoned is the taxes accruing every year; but to this must be added a fair return on the money put into the land if invested in some other form. That is, taxes and compound interest are running against the land; whereas the average land-holder thinks only of taxes. The custom of discounting bills at the bank has shown most business men, in fact most of the population that have attended school,

that a dollar due six months or a year from now is not worth a dollar at present, but, strange to say, this principle is forgotten when the money is tied up in goods or real property. Few merchants, for instance, think of the time that a piece of goods lies on the shelf as being a part of the cost of selling. Yet a hundred dollars' worth of goods lying on the shelf a year costs about six dollars in interest charges alone. The proportion of land-holders that recognize this time value is smaller than among the merchants.

Since the return from land held out of use cannot be realized until the land is sold or put to use, all the costs must be considered before a profit can be claimed. These costs are:

1. Compounded interest on money tied up.
2. Taxes.
3. Compound interest on taxes paid.
4. Contingencies (e.g., lawyer's fees).

The following is quoted from an article by Mr. Thomas Adams:

"Claims regarding large profits on land purchases are often misleading, because the factor of compound interest is ignored. Frequently one hears of people accepting the same price as they paid for a lot after holding it five or more years and feeling satisfied with the result. They are 'glad to have escaped without loss, except in regard to the

amount they have paid for taxes.' As a matter of fact they have lost much more than the taxes. Let us assume that they spent $1,000 for a lot in 1910 and sold it in 1915 for the same amount, meanwhile paying $100 in taxes and other expenses. The loss of interest for five years at 7 per cent. is the difference between $1,000 and $1,402, viz., $402. The total loss in taxes and interest is thus $502, or over 50 per cent. of the capital invested. Where land is purchased in lots, and city taxes have to be paid upon it, the purchaser will usually have to double its value every five or six years that he holds it without use, in order to ascertain its cost to him. . . . When a real estate operator offers a lot which he claims will double itself in value in a few years, all he is doing is to assure the purchaser that he will get his money back. Against the possibility that he may get a profit there is the more than balancing possibility that he may make a loss."

The following from the same article by Mr. Adams is also worthy of note:

"Moreover, speculation has the result of increasing municipal taxation. To have profitable speculation in suburban land, it is essential to sub-divide much larger areas than are necessary for immediate use. In a city of 100,000 inhabitants, more than 20,000 lots may be put on the market in a 'boom' period. The conversion of perhaps 1,500 or more acres into sub-divisions imposes an increased responsibility on the municipality to provide water, light, sewers, pavements, etc.— in whole or part — at a much greater cost than is necessary when land development takes place under normal conditions. The scattered nature of the development which is the result of unregulated speculative methods enor-

mously increases the cost of local government. In some cities probably from 20 to 25 per cent. of the taxes are due to unnecessary expenditure incurred in connection with the development of land which is not really needed for building purposes. It is, of course, true that the high speculative value helps to keep the percentage of the tax rate lower, but, instead of this being an advantage, it is a disadvantage, since it blinds the citizen to the facts regarding the cost of city government." [1]

The costly improvements in the outskirts of the city of which Mr. Adams complains, are due in no small part to the fact that such ventures to give much promise of success must be on "agricultural land." The lower tax rate on such land within city limits cuts down the cost of speculative holding. Where assessments are made only every two years or less often, the speculator, even if the city government is honest, has two years or more in which he can carry improved city blocks as farm lands. The tax rate on this farm land would be 1/5 to 1/10 as much as the tax on small house owners.

The loss to owners resulting from the holding of land out of use or putting it to inferior use has already been briefly treated. In the small cities especially,

[1] The Purchase of Land for Building Purposes in Conservation of Life for July-September, 1916 (a quarterly bulletin issued under the direction of the Commission of Conservation of Canada), p. 73.

where business principles are little understood, the taking of losses is to be expected over any considerable period. The purchase of land for a public building at a fancy figure by the government or the coming of a factory will cause the other land owners to transfer these unusual values to their land. A land boom starts; two to three times as many building lots are opened as could be used. The citizens buy and sell among themselves at fictitious values, perhaps at as much as ten times the reasonable worth of the land. The movement is psychological rather than economic and inevitably the bottom falls out. In the meantime when the city might have acquired new enterprises, these have been turned away by the land boom. More absurdly high land values can commonly be found in the little cities of Iowa and other Western States, for instance, than in the great cities of the East. On the other hand low land values ought to be the lure which these small cities could offer to an enterprise seeking a location. It is not an accident or a whim that leads some of our large enterprises to buy a tract of land and start a city of their own, and more of this may be expected in the near future if something is not done to limit the power of land owners to paralyze city growth.

THE WAY OUT

The primary purpose of this chapter is to show the part of land in production costs. If that point has been demonstrated the end will have been achieved, for once the citizen has grasped this relation the way out is a simple matter. A part of the unearned increment may be taken as is the method in German cities or taxes may be gradually shifted from improvements to the land. Either of these steps can be taken without disturbing business. Both will produce an increased demand for land which will check any sudden decline in values. Such has been the experience in cities where it has been put into effect.

If the city stops with taking a part of the increment or with shifting all taxes from buildings to land, however, a grave danger develops. These steps have such a wholesome effect on business and so much margin is left for speculation, that a land boom will develop. In Vancouver, B. C., the land values were higher in 1910 after all city taxes had been shifted to the land than in 1905 when the new method was being put into effect. The taxation must so bite into land values as to leave no hope for speculation.

John Moody, the editor of *Moody's Magazine* and of the manuals on investments used everywhere where

definite knowledge of stocks and bonds is a matter of importance, expressed himself editorially as follows when the Sullivan-Shortt bill was before the New York legislature:

"I am unhesitatingly endorsing the Sullivan-Shortt bill for gradually reducing the rate of taxation on buildings and concentrating it on land values, for the reason that it appears to be, by every analysis, the sanest and most just piece of legislation proposed in many a long day.

. . . . . .

"But here at last we have a bill which goes to the root of the situation. No one will dispute me when I say that I know something about the meaning of speculation. An experience of over twenty-nine years in Wall Street, where the whole atmosphere is charged with speculation, has taught me to do a little thinking now and then. And I know what I am talking about when I say that nearly everything in Wall Street of a really speculative nature is capitalized land value. I have for years seen this land value grow, in the shape of stocks and bonds, until to-day we have about eighty billion dollars' worth of corporate stock in this country, of which more than half — the speculative half — is based on land values purely.

"What are these land values? Are they capital? Capital is simply stored up labor, and labor is the one thing which produces wealth. This production of wealth is not a bad thing; it is a good thing. It is the cornerstone of our entire civilization, and why people should be so anxious to tax it is something I never could understand. Of course, I understand why landowners wish to tax it. Something must be taxed, and Mr. Astor, who owns both land and improve-

ments, knows that as long as labor keeps busy feeding and clothing itself in New York City, his lands will grow in value without any effort on his part, and he will be able to increase his rents in direct proportion to the increase in the value of his lands. So why should he wish, through land value taxation, to disturb his present satisfactory position?

"Some one has said that to take taxes off improvements and put them on land values would be confiscatory. Confiscation is a great word, especially in Wall Street. If taxing land values is confiscation, why is not the reduction of the tariff also confiscation? To abolish the tariff on steel would impoverish a whole lot of people who have invested in Steel Trust stock at fancy prices, just as to tax the full speculative value of land would impoverish many speculators who are working land booms at the present moment. But on the other hand, abolishing the tariff on steel products would give us cheaper steel, just as the lightening of the tax on buildings would give us lower rents and tend to relieve congestion.

"I know something about panics and their causes, and I do not hesitate to come out flat-footed and say that this is just the character of legislation which will tend to prevent panics, as well as relieve congestion."

CHAPTER VII

CAPITAL

One of the stock arguments against city reform no matter how much it may aid the city, is that it will drive away capital. Wall Street periodically threatens to run away to Canada or some other country more favorable. Throughout the period when Germany was putting in its social and business reforms such as social insurance, technical education for all, and the cartel system, the large owners of German capital were threatening to take their capital out of the Empire. When New Zealand began its now highly successful policy of aiding production, about 1870, the capitalists likewise said they had their grips packed for other countries.

If capital needed in production did have to depart when a city or nation launched some far sighted plan of promoting production, the situation would indeed be hopeless. If the place where ownership or feudalism was more favored than production, actually attracted capital more than the place putting production first, then the threats of the capital owners are real and

cities and states anxious to promote production must despair. But the exact opposite is the truth. The only way capital can be driven from a city is by placing a burden on active capital that reduces its returns. Capital rushes in where the prospect of return is a little higher than in other places. Capital rushes in, for instance, in those places where it will be relieved of taxes on its production and in those places where aids are thrown around the processes of production. In 1890 New Zealand had $6,000,000 of capital engaged in manufacturing. In 1910 it had $85,000,000.[1] Germany had no difficulty such as its capitalists predicted; rather capital rushed in and its prosperous industry developed great supplies of capital of its own.

The threat of the owners of capital to leave a really progressive city or nation is made more ridiculous by the fact that in their minds and in common parlance, land with its natural resources is considered as capital. This factor makes up at least 60 per cent. of the wealth of every city and a higher percentage of the wealth of the nation.[2] How can these city land owners depart with their land when the city penalizes land speculation and favors land use? How will our capitalists get the waterfronts, the coal mines, the copper mines

[1] Hugh H. Lusk: "Social Welfare in New Zealand," p. 190.

[2] John Moody, in the quotation on page 106, estimates that half of the corporate stock in the United States is land value.

to Canada when our income taxes and inheritance taxes get so high that they made up their minds it is time to go? The truth is that at least 75 per cent. of the capital of the city is fixed, it consists of the estimated worth of local properties and can't possibly be conceived of as departing. How, for instance, will franchise owners be able to carry away the so called "water" in their stock? Individuals may sell out to other individuals, but the capital thing itself, the factor in production, remains. The capital of the city is chiefly the capitalization of the city.

The only alternative possessed by the owners of the city capital is whether the returns of their capital holdings shall be invested locally or elsewhere. That is quite a different matter from departing with what they possess. If the city or nation is favoring production, these capital returns will be invested locally. The owners' feelings will never reach that exalted point where they will prefer 5 per cent. abroad to 6 per cent. at home. The kind of capital a city needs will stay at home and multiply if the emphasis is placed on production.

THE EXPORT OF CAPITAL

One of the results of our inherited tendency to emphasize and safeguard ownership no matter what form

it may take, has been a topsy-turvy view of the export of capital. Increasing export of capital is hailed as a sign of strength. That a city's bankers hold sway over a large section of the country outside, or that the nation is shipping the returns from home investments to South America, Africa, or Asia, is hailed as the best proof of city and national prosperity, or exuberance. It has so much capital that it can reach out to poorer sections or nations with aid. C. K. Hobson, the English economist, estimated the foreign investments of England in 1912 as not less than £3,500,000,000 or $17,000,000,000. France at the same time had loaned great sums to Russia. European capital in American securities was estimated at $5,000,000,000 in 1914. The power to pull purse strings from the ends of the earth has been considered the last " word " in national strength and nations quarrel over the opportunities to extend their foreign investments.

Where did England, France, and the other nations, however, get the means of making the foreign investments? Have they not shifted the returns on home industry from home investments to foreign investments? Clearly their financiers were seeking the highest rate of return and they failed to invest more at home because home production was not sufficiently profitable. How much different the home develop-

ment of England and France would be to-day if their governments had had the foresight to so stimulate production as to keep this emigrating capital at home! How much better it would be to have more English factories than to be able to boast that three or four Englishmen own the large resources of South Africa? What prestige of French investors in Russia can compensate for sluggish industrial development at home? Yet many nations have carried on war, sacrificing the nation's blood and treasure that their investors might the more profitably withdraw their free capital from home development. Such is the height to which the obsession of protecting ownership can be carried!

The following estimates of the new securities issued on the French and German and English stock exchanges during 1911 and 1912, are at least interesting:

Year	*Foreign Securities*	*Domestic Securities*
	FRANCE	
1911	$754,660,000	$158,240,000
1912	$598,940,000	$360,820,000
	GERMANY	
1911	$293,544,000	$645,408,000
1912	$202,462,000	$816,766,000
	ENGLAND	
1911	$693,516,000	$127,071,000
1912	$722,561,000	$220,328,000 [1]

[1] C. K. Hobson: "The Export of Capital."

Although new capital issues are not an exact test of investments, they serve to show the relative importance of foreign and domestic investments. In England and France foreign investments are much larger; in Germany it is the reverse.

This relation of foreign and domestic securities for the three countries is practically typical for France from 1900 on, for Germany since 1897 and for England since 1903. "One of the most noteworthy features of the period (1890 on)," says C. K. Hobson, "was the enormous demand for capital in Germany, where industry was developing at a great pace. Capital was attracted into Germany from neighboring countries, including France." [1] Yet the German capitalists had predicted capital would run away when the nation began to make its social and business reforms. By building for production Germany attracted capital and achieved a rapid increase in prosperity; by neglecting production the others had to export far more than they could use at home.

Land taxes are kept low, monopolies are encouraged; taxes put upon money and credits, store stocks, consumption goods, real estate improvements; education left undeveloped; almost anything in fact that will add to the temporary profits of the owners of land and

[1] C. K. Hobson: "The Export of Capital."

franchises or monopoly privileges is considered advisable and is put through. It is not surprising that a nation practicing an economy of this kind should find its home business stagnant and its people emigrating. The two go together for with sluggish industrial development the increase in population cannot be provided for.

CAPITAL FROM PROSPECTIVE RETURNS

Every factor that increases the prospective earnings of a factory, a store, a piece of land, increases its capital value. The owners and others set more value by the income producing property as its promise for the future grows. This capitalization of future returns is a universal factor in modern business life. Any important new prospects are commonly made the excuse for issuing capital stock to cover the future earnings. Often the stock issue is far in excess of prospects and is unloaded on the uninformed and careless investor. When the average interest rate is 5 per cent. a $5.00 annual income is worth $100. If the income promises to jump to $10.00, its capital value approaches if it does not arrive at $200. Our great private fortunes are not the result of saving income but rather are the capitalized value of their prospective income. Stocks and bonds listed on the exchanges will gain or lose 5

to 10 billions of market value in the space of six months for no other reason than changes in future promises.

On these present values determined by future outlook the credit can be secured to launch industrial developments or the credit is denied and developments must wait. Credit is the all important thing. The money necessary to finance a development is always forthcoming where the credit is abundant and is always lacking where the credit is lacking. The money is merely the medium of exchange; it is capital in a liquid state, flowing around into the pools, lakes, rivers created by credit. This credit is not a stable, definite quantity to be added to by saving as so many economists have held; rather it is created by society and somewhat by individuals. In our present extreme individualistic business life, with powerful private interests running wild among the less powerful, this credit reservoir of ours has wide and violent fluctuations, the result of which is not only a halting business development but recurring periods of misery for the population.

"Capital," says Bohn-Bawerk, a much quoted authority, "is the result of production and saving," a definition which belongs to the dark ages. The capital of civilization is credit, itself the product of civilization, for it is the result of the buying power and pro-

ducing power of the people, and of the fact that this vast number of people live and work together more or less harmoniously. Increase buying power, strengthen productive power, improve the living and working relations, and at once credit, our modern capital, increases in quantity; cut down buying power, weaken production, decrease the favorable adjustments for living and working together, on the other hand, and credit quickly shrinks. That credit can be indefinitely increased by molding the factors that affect the prospective returns, is probably the most important principle of present day business philosophy.

Such being the case the productive business in a city succeeding at lowering external costs, would have a source of new capital not open to business in unprogressive cities. The greater prospective returns could be capitalized. Not only would active capital rush in but its terms would be easier. In such a city in fact the whole city supports the individual credit. There is a new stability. Hindrances to prospective income are removed; the danger of failure from local causes is reduced. What formerly swelled the capital worth of those owning land and other monopolies, would flow in a larger stream into productive business — larger because the income to be capitalized would be larger. A one dollar increase in income would

allow an increase of $20. in capitalization. With this proportion of one to twenty where the interest rate is 5 per cent., what a wonderful prospect there is for attracting new capital even with the small improvements a city may make!

THE FALLACY OF SAVING

The more accurately this source of modern capital is grasped, the more apparent the fallacy of saving or skimping by the city and by the individual becomes. "Saving" as the term is commonly used, is an enemy of that future prospect on which the city capital supply is based. A city that neglects to improve streets, neglects its schools, leaves its utilities to private exploitation on the plea of saving, really drives capital from its industries. The individual who narrows his life in the interest of saving, decreases his productive worth, and worse yet the majority of the savers can never get half way as far toward future safety as a good system of social insurance would take them. Social insurance would adequately protect the citizen from those calamities against which he vainly tries to save, and the citizen could then use what he has for self-development.

Professor Seager of Columbia expresses this "Saving" fallacy thus in his much used text book on

economics: "For the whole community the aggregate savings of a thrifty laboring population would cause a great increase in the equipment of capital goods, and a corresponding improvement in its industrial processes." [1] Such economists as Seager appear to assume that any curtailment of expense and any growth in the savings bank account are good for the individual and society. They cling to the doctrine that our capital is the result of saving and neglect the modern phenomenon of capitalizing the future; perhaps this theory stays with us so desperately because it gives a virtuous cast to the accumulators of large fortunes. "The less the worker spends on himself, the more there will be for building factories, supplying machinery, etc.," is the form the doctrine usually takes. These economists ignore the obvious fact that the consumption or expense of the laborer though its effect on labor efficiency is as potent a factor in production as capital available for investment. From both the individual and production view point, no worker in the United States getting under $1,200 a year can use any surplus he may have over bare existence, more wisely than on himself and his family. Capital can be found in plenty for investment; but for his own improvement only the worker's own pitifully small surplus is available. To

[1] Seager: "Principles of Economics," p. 151.

devise means of making his expenditures go farther, on the other hand, and to direct him in profitable spending would be real community foresight. To make business and employment more stable is also most necessary. When he invests in himself the worker and society reap twenty to an hundred fold; when he skimps in answer to a banker's advertising, he gets 4 per cent. and society loses. The farmer who must pay 8 to 25 per cent. for farm loans might with better reason put his occasional surplus into 4 per cent. investments.

We need only to imagine the "saving" philosophy universally practiced, to see the fallacy of it. Every one cuts down outlay to stern essentials. Food, recreation, education, health, are slighted. Every member of the family gets into some gainful occupation as soon as possible. But if the city man cuts down his food and his clothing, the farmer will sell less, and selling less, he cannot buy so much of the city man's product. Both have decreased purchases and they have nothing to show for their sacrifice but narrowed, retrograde lives. A nation practicing this thrift is comparable to a Crusoe refraining from taking his fill of the good things of the island. General prosperity or increasing returns must come from a mutually increasing flow of expenditure. Beneath its superficial com-

plications, business is the making and bartering of goods. If we cut down the amount to be bartered or swapped by thrift, we cut down the demand and the profit in making goods. Producing without consuming, selling without buying is a philosophy of national decay.

But this view of capital does not at all imply that what the income is spent for is a matter of little consequence. The whole question of right or wrong expenditures is left open. Expenditures must be right to add to the prospective income and to the individual well being.

TWO KINDS OF CAPITAL

To promote city business it is necessary to treat capital entirely as a tool with the owners of which a good bargain must be struck. Inducements must be offered to that kind of capital needed, but on the other hand with land which has to stay and capital which is the result of capitalizing the needs and natural advantages of the city, the less the possessors get the better off the city will be. The contraction of land values, franchise values, and other monopoly values while the city is going ahead in production, would scatter these values over the whole body of active producers in the city. It invites that other capital which

builds factories, constructs office buildings and homes, and furnishes tools in abundance. It turns the whole economic process in favor of those actually putting out goods and away from those who merely draw rents and interest.

In practical effect on the city the beating down of the returns to those owning capital that can't get away is comparable to the effect that the gradual removal of bonded indebtedness would have on a corporation; there would be more left for dividends. Yet this comparison falls short of the truth because the exactions of the owners of this city capital vary with the growth of the city. The greater the prosperity the greater is the indebtedness of productive business to the owners of land and franchises. The corporation's debt is fixed, while the city's debt to these interests is always overtaking its new business. Hence even to hold these owners of capital that can't get away stationary is a great differential and to force them back promises wonderful achievements in production.

THE MONEY POWER

Capital cannot run away as it commonly threatens to do, but this does not mean that the so-called "Money Power" or large financial interest cannot fight or is a negligible opponent. The fear of it is the beginning

of wisdom. It is not dangerous in a fair fight, but a fight against a monopoly power can never be fair. The large financiers have such control that they can throw the whole force of our civilization against the man who displeases them and they can seriously embarrass any city setting up a program of thorough reform. They will lose much to do this to prevent the development of a "bad" example.

Every business man must have ready cash or bank credit to carry on business. It would be a poor employment of capital to keep enough of it at hand in the form of money to meet the varying amount of current liabilities. In one month these might be $2,000, and in another $50,000. Even the most prosperous of enterprises use banks for this reason. City governments depend on banks in much the same way and for floating bond issues.

This current "cash" need gives those who can dictate to the local banks a powerful weapon against their enemies. This normal service to a business or city can be withdrawn so quickly that there is no time to liquidate fixed assets to meet the need. Again current liabilities of the business may be bought up, and bank aid shut off. The local bankers may have ample funds, they may be willing to advance the credit, but they too have current obligations and would be treated

in a summary fashion were they to refuse the orders from higher up.

In the building up of trusts and great railway systems this power over banks was frequently the factor which brought success. A good recent instance of its use is the success the money power has had in hindering the Federal Farm Loan Bank. In addition to forcing local obstructions, only about $30,000,000 of its very attractive bonds could be sold. If the Federal Farm Loan Bank were a success, the farmer would have a source of credit independent of the regular credit system,— something which would strike at the very root of the money question. In time other classes of business would demand similar advantages and sweeping reforms would be ushered in. At present the large financial interests have a monopoly of the money market in that they control both the issue and the rate of interest. The fact that the Government prints the notes and certificates is a matter of no importance.

The great success attending credit concentration probably indicates considerable change in this field in the near future. The substitution of public for private capital in railroads, mines, and utilities in general would serve to lessen bank domination. Success of the Farm Loan Bank is another promising factor. The gold standard which the financial interests once

thought would always serve their purpose is breaking down and this may lead to surprising developments. Methods may be found of freeing local banks from the centralized control. Monopolized credit facilities discourage production. The issue of credit is less than what business would warrant and credit can be artificially withdrawn for ulterior purposes. The rate of interest is higher than necessary. The time is ripe for fundamental changes. Any reduction in interest rate will be an aid to productive business. There is every reason to believe that the banking business can be operated on a smaller margin between interest paid out and interest charged,— on the one hand by drawing the teeth of monopoly and on the other by reducing the number of very small banks.

THE CAPITALIST OF THE FUTURE

Assuming that the trend of events is shifting the emphasis in business from ownership to production, we may expect a new type of capitalist to develop. As ownership becomes less powerful managerial ability will come to the fore. To-day the brilliant, forceful, inventive men who make American business as good as it is are almost entirely the lieutenants of owners. They do the work for the "old man up-stairs" or the figureheads and reward getters on the boards of di-

rectors. Lacking the great capital needed in modern enterprise, they must (as the independent man in feudal days tied up to some lord) tie up to some capitalist or group of capitalists and become "his man." This type of man even if he draws $10,000 or $25,000 a year is exploited by our emphasis on ownership as much as the common laborer. All society loses by having him exploited and his brilliant possibilities curtailed by the less able hand of ownership.

As the power of ownership declines, we may expect to see available capital more plentiful than now. The power to capitalize the future taken from the few will throw this factor to the efficient producers. At present capital is so monopolized that the banker, the last man to choose for business management, has his thumb on every business in America. The big banker has delayed our business development probably as much as ten years and a break must come. The natural evolution will be the taking over of monopolies, the curtailment of the right of inheritance, and the gradual dissociation of small business and the man of ability from the large ownership group. Charles M. Schwab, the well known President of the Bethlehem Steel Corporation, in a recent speech predicted control by the propertyless class in the near future. The labor factor will certainly become increasingly important.

With steps in this direction being taken at the rapid pace characteristic of the modern world, it is not difficult to imagine as the new capitalist of a few years hence a man of superior knowledge and dynamic power, who can get together and hold together an efficient, harmonious group of workers.

City promotion needs this type of man. He is with us now in fact but being tied up with some large financial interest, he is a servant of this interest, hampered by traditional methods and by the temporary point of view of his employers. On the other hand the people associate him with the idle rich or special privilege. If we are fortunate in our business evolution, this type of man will gradually be dissociated from the idle rich and special privilege, and the people will gradually acquire that all important respect for executive ability. Gradually he will be in a position to work with rather than, as is so often the case now, against the interest of the city.

CHAPTER VIII

THE CASE FOR PUBLIC OWNERSHIP OF UTILITIES

"I set the assertion that the finest public life will exist in a community which has learned to combine its citizens in the largest number of coöperative functions for the common good."— WALTER RAUSCHENBUSCH.

THE case for private ownership of city utilities is so constantly presented in books, magazine articles, and the daily press that a restatement is probably unnecessary. Our whole past induces us to private ownership and the burden of proof is on those who advocate public ownership as a step in advance. The case for public ownership has also been well presented by many writers, although it is not so prominent perhaps in the minds of our business men. The main object of restating some of the more important reasons for city ownership is that the theory of city promotion here given, provides a new approach to the problem and furnishes a new test that may help many to decide the issue.

The American business man is like to have a holy fear of substituting public for private capital. His experience seems to teach him to fear it, and many

writers who ought to know better, have held it up as inefficient and bad for other business. Practically all the economists of standing have opposed city ownership on economic grounds. Now that experience in many cities and especially in forced public control of so many utilities and even factories found in the warring countries, has proved the opposite, private ownership is being defended on other grounds — notably liberty and free institutions.

SERVICE AT COST

The fundamental reason why public ownership of services naturally monopolistic in character is an economic success, is that when these services are rendered at cost all free competitive business secures an important differential over business in other places not so favored. The point that every business man has a right to fair profit, about which so much is said in the United States as a plea for the utilities, has nothing to do with the question as to whether it may pay other business to withdraw certain services from the field of private enterprise. Let there be fair compensation, of course; let there be a fair profit while the utility is conducted by private capital. The fair profit, at least, is necessary to attract the needed amount of private capital to the service. Quite different is the question

as to whether business competing with the outside world would gain by withdrawing certain common services from the private field.

Utility charges must be higher than cost of production by the amount of profit. This profit whether large or small must, therefore, make the cost to users so much higher than the cost of production. If the cost of production were even somewhat higher in the city owned service, therefore, the consumer would still be the gainer. There are several factors, however, tending to make the city cost lower. Capital can be obtained at a lower rate of interest. The high salaries for financial and political ability are not needed in the public plant. The operation is resolved into simply supplying the necessary units of service. Rather ordinary managerial ability and engineering talent are the requirements. The private utility on the other hand must have financial ability and it must keep the political situation lined up.

The efficiencies of privately owned utilities are for the utilities — new processes, better systems, more capable management are put in for the profit of the private owners. Their necessary object must be to let as little advantage reach the public without appropriate compensation as possible. On the other hand the inside efficiency of the privately owned utility is

likely to be low as compared with that of a competitive business of similar size. There is not the necessary incentive. A monopoly business decays internally because it can cover its mistakes by higher selling price. Efficiency is difficult and is carried to a high point only under the stress of the competition with others willing to pay the price and having the intelligence.

UTILITY DOMINATION IS HARMFUL

City utilities are so essential to the business and life of the city that those who own them dominate the city business to a large degree. They can decide a good deal of the possible manufacturing, wholesale and retail development and what resident sections are to be developed or left undeveloped. Those on the inside of a transportation utility, for instance, can know beforehand where developments are to take place, and they can discount the land values owned by other people in other sections. The undesirable congestion in the Loop District of Chicago is a mystery to those who do not know that insiders in the transportation companies are heavy owners of real estate in the Loop District. That this congestion is bad for the business of Chicago cannot be seriously considered by the traction companies. There is not a city in the United States with privately owned utilities whose business is not

largely controlled by these interests; it is a natural, inevitable condition growing out of the business factors of the situation.

The utility control of business development is unquestionable and obvious to any one who has given much study to utility enterprise. Should the business of the city competing with the outside world have a boss or decide its own line of development? Manifestly this business ought to know what it needs and what is advantageous or disadvantageous to itself better than outside parties, especially when these parties have economic ends at variance with those of productive business. With utilities financed by public capital and managed by men directly under the city government, business competing with the outside world will be able to control and use these services so as to give itself differentials.

UTILITIES MUST COMBINE WITH OTHER SPECIAL PRIVILEGE

Privately owned utilities have two methods of increasing profits open: they have the usual business opportunities of adding to profit by increasing sales and reducing costs, and in addition to these that of securing a larger unit price through political power. Every utility interest must aim to acquire as much

political power as possible, not only as a means to more profit, but as a means of protecting itself against price reduction and stringent regulations. Because these interests represent relatively few people, this political power can be acquired only by joining forces with others looking for special favors. The utility interests must consequently always be lined up with the sinister forces of the city. The possibility of getting profits in this manner strengthens the hands of all those who are working against the city. The public utility supplies the sinews of war, and the rates charged bear this burden, for under private management the cost of public corruption (as it is called) is a part of the "cost of production."

ONE-SIDED CONTRACTS

The utility franchises are generally granted for long periods, usually twenty-five years or more. A fair contract covering such a period is impossible because no one can foresee the conditions for that length of time; one or the other of the parties to the contract will be at a disadvantage. The franchises are generally so loosely drawn that the utility can escape if an unforeseen condition cuts into profits, but the provisions can all be enforced against the city no matter how

onerous. In private business contracts generally last only so long as they are advantageous to both parties; contracts between the public and private interests, however, last as long as they are advantageous to the private interest. The public, of course, is the constructive business of the city needing the utility service. From the point of view of this public in fact, as Tom Johnson used to say, "the best franchise is one that has expired." The city is then in a position to allow the public utility to continue serving the people on good behavior, or to take it at any time under public management.

PUBLIC OWNERSHIP CREATES CIVIC INTEREST

Wherever public ownership has been tried, the citizens have been found to be more critical of the service under public control than when it was under private ownership; they take more interest in it and are more anxious to demand and force improvements, all of which is to the advantage of the business served. The railroad congestion and failure in the Spring of 1917 would never have been tolerated by our business men had the service been under public management. The interest in the city developed by the acquirement of the privately owned utilities greatly stimulates the

interest of the citizen in his city, while at the same time removing the utility interest from politics. The city then appears to touch the citizen at more points, and he is likely to feel that he has much more voice than formerly in the development of the city. Family pride and interest develop around family possession and family distinctions. As some one has said not much family pride would develop if the family possessions consisted of few odds and ends of furniture. City pride and interest likewise are dependent on city possession; the city must have something to be proud of and activities that demand interest. The interest in city affairs essential to the most efficient public operation of utilities will not be developed until the city takes up such active services for the citizens. The more extensively the city goes into these, the more citizens it will directly touch and give a logical, day by day, self-interest reason for paying close attention to public affairs. Such is universal experience where city ownership has been seriously tried and on an extensive scale. There is little reason for expecting this interest in any but the more farsighted or altruistic until the city does touch the citizens directly. Then not only will the utilities publicly owned be made efficient by the spur of a multitude of watchful critics, but the whole public life will reach a higher tone.

REGULATION A FAILURE

For any city, especially the small city, the attempt to get good, cheap service by means of regulating privately owned utilities is most wasteful economically, and probably would not be seriously entertained except for the ardent desire to harmonize the long established and seemingly essential custom of private ownership with the need for better and cheaper services. City ownership has appeared to have all the terrors of the unknown. This regulation, however, must always fail of its main purpose. The most common method of failure is that by which the utilities gain practical control of the city government and appoint their own tools on the commissions, thus presenting the farce of regulating themselves. Again the utility commission may fall into the hands of practical politicians who must fight the utilities to hold favor and who bear bait the utilities with burdensome exactions unnecessary from the point of view of the city business man and citizens. More rarely well intentioned commissioners will drive the profits down to such an extent that capital improvements cannot be provided, thus weakening the quality of service. In any case the extra costs of private ownership run on and to them are added the costs of the city regulation.

PUBLIC UTILITIES AND CITY DEBT

One of the most specious arguments against municipal ownership of the profit yielding utilities is that it will increase the city debt. The total bonds issued for the water works system of New York, for instance, are stated as city debt and the person unfamiliar with accounting assumes that New York City's debt is greater by this tremendous sum. Over against these bonds, however, is the asset consisting of that wonderful water supply system that can yield in revenue more than is sufficient to meet the interest on these bonds and the full expenses of operation. In its waterworks New York City has a net asset rather than liability. A municipal balance sheet would show such facts and it is more than inertia that prevents cities from using up-to-date accounting forms. For many interests they would tell too much.

The erroneous principle of regarding the bonds issued by a city for taking over profit making utilities as a gross addition to the city debt, applied to private business would demand that all bonds and stock be considered a debt to be paid off within a few years. In other words the industry would have to return the capital as well as provide interest and other costs of

operation, including repair and depreciation. Capital, however, is almost never so withdrawn, and there is no more reason why it should be withdrawn in a city owned utility.

THE COST MUST BE MET

On the other hand there is the assumption that the city has no obligation to meet if the profitable utility is privately owned. Yet it ought to be plain that all bond and stock issues by such a private company are obligations in that returns on them must be provided out of the charges for the service. There is much more opportunity for increasing the obligations to be covered by the charges, under private than under public management. Under the latter it can be increased only when additions are needed; under the former it will be increased at least whenever the earnings approach what would look to the public like a fair return on the capital. Under the former it will be increased when insiders see an opportunity to capitalize the future and get away with the profits in the present. Yet so long as utilities are privately owned, the capitalization must be the basis of rate making, and when they are taken over this capital, no matter how much watered, will probably have to be paid for.

DANGEROUS FEAR OF THE UNCERTAIN

The strongest factor of a serious, neutral nature working against city ownership, however, is probably this: very many business men prefer taking a smaller profit to the possibility of a larger profit entailing what appears somewhat uncertain. Many a business man will say, "We are doing fairly well, why make such a radical change?" This attitude is comparable to that of the business man who argues: "My business is large enough for me; why should I try to increase it?" Both attitudes are unsafe in a rapidly changing business world — especially when those changes are emphasizing large scale production and larger turnovers on smaller margins. Under such conditions the best is likely to be none too good and the city or individual enterpriser relying on fair, second-rate, good enough, will be left far behind. The danger is that this city or this man will come into competition with those reaching the best. The best must be aimed at even at some risk as a means of insuring what the city already has. City ownership has not been sufficiently common in the United States as yet to become a prominent factor; no city has more than a little of it, but in a short time the movement will develop to great proportions suddenly, and business will swing in great

slices to those cities best prepared with it. The enterpriser in productive business should look on the economies of city ownership first as a means of conserving his present status and second as a possible source of large differentials over rivals in less venturesome cities.

In the October, 1916, number of *Marine Engineering,* Mr. H. McL. Harding, a well-known consulting engineer, said:

"There are being built new terminals along the Atlantic and the Gulf of Mexico. Some of these will overtower the others. Which city will have the greatest terminals?

"The most successful city-owned port in each state with the best terminals will become the metropolis of such state. Such is almost universal history of great modern cities."

And again as a conclusion he says,

"In the competition between port cities, a city whose terminals are largely privately owned and controlled cannot successfully compete with a city whose terminals are owned, controlled, and operated by the city for the people."

THE FEAR OF EXTENDING SOCIALIZATION

Another somewhat neutral reason for slow progress in public ownership is the fear many citizens have that city ownership of public utilities will be the beginning of a swift end to private business. Rather than sacrifice this, they would sacrifice the possible economic

gains from city ownership. In the first place this view almost grotesquely exaggerates the possibilities of progress in socialization; it foresees possibilities beyond the hope of the most ardent socialist. In fact the process of socialization must be slow — a few steps taken at a time and at most the calamities of those who fear it, are for other generations who will know more than we. The tree never grows to the sky, the baby elephant does not increase indefinitely in weight. Socialization will probably go only so far as it is economically valuable to business not socialized, and to that point it will be desirable. In the second place an economically valuable step cannot be successfully opposed. It may win gradually and with results of an entirely positive character or it may come suddenly with many maladjustments after a bitter struggle. Those who do not learn to fall in with the demands and tendencies of the age, may be suddenly brushed aside. We have before us a period of socialization, and the only question is — not whether there is going to be any — but what lines can be profitably socialized in the near future.

THE PROBABLE LIMIT TO SOCIALIZATION

Although no one can pretend to know the future, it is probable that socialization will go no further than

what is needed for most efficient production. There is no reason at the present time why the government should take over a Ford factory to produce Ford cars, but there is much reason why it should take over the railroad system. What is the distinction? There are several:

Railroad evolution is practically complete; the uncertainties have passed away, making it comparatively easy to operate by the government. The present owners did not build them but have inherited or bought parts and they render about as much economic return as the Prince of Wales does for the annual £80,000 he receives as the Duke of Cornwall. The uncertainty, the creativeness in railroads has gone and in its place is monopoly. Its operation is now a routine matter and its profits depend on the need the nation has for railroads. On the other hand, Mr. Ford has created something new and few think of his enormous fortune as unjustly acquired or uneconomically acquired. Were Ford and his successors to get a monopoly of the automobile business, however, after the development period has passed and were the making of automobiles to become the routine construction of standard cars without serious competition, the other business of the country would gain by taking private capital out of the automobile business.

Just as soon as competition is gone, just as soon as the spirit of struggle and creative enterprise in a certain line has passed, it is time for the government, whether of city, state, or nation, to step in. Will this produce a gradually contracting field for private endeavor? By no means. For every one gaining unearned profits by monopolistic power, there are several with native business ability shivering in the cold. These people will have greater opportunity. Private capital will be diverted to fields awaiting exploitation, fields that are now starved because of the relative uncertainty and because of the high profits in established monopolies.

FUNDAMENTAL THEORY

The underlying principle of our whole business life is that we rely on the stimulus of profit to get any service performed. The rough balance between the capital and the number of enterprisers and workers employed in the different fields is attained by the fact that there are increasing profits in a field too little occupied to meet society's demands and diminishing profits in the field a little overcrowded. If the demand for shoes, for instance, outruns the normal supply a little and the cost of producing shoes remains the same, there will be more profit in making shoes and more capital and labor will enter the field. On the

other hand, if the supply of potatoes outruns the normal demand, so many farmers will fail to plant the same quantities the next year that those who do plant are likely to get a good profit and there may be such a shortage as to cause an abnormal profit for that year's crop.

This principle of hit and miss, of trial and failure or success is so much a part of our normal thought and life that most business men are in the dangerous position of never thinking to question its adequacy to meet all our complex situations. As a principle of organization it is entirely a matter of natural growth or evolution. It did not come from taking thought and choosing between several possibilities and what is more it is comparatively recent. The profit system of organization grew out of the decaying feudal system and the early stages of the modern industrial movement and consequently is not over three hundred years old. Our reverent attitude toward it springs not so much from its age as from comparing the present stage of civilization with that produced under other production systems. There is, however, no valid reason for holding our system aloof from painstaking, scientific analysis. Even if it be correct in the main, there are probably many points at which it could be improved. Nature's processes even in the evolution of society

are extremely slow and wasteful. She provides a million fish eggs to produce a final surviving dozen fish; millions of people die of a certain disease before the race becomes immune to it. Christianity is established after the tremendous sufferings of the early Christian era and free America grew out of long standing colonial abuses and the Revolutionary War. History appears to show that the world adopts new methods only under compulsion, but there is no reason why, by taking thought, progress cannot be indefinitely speeded up and the inefficiencies weeded out long before social evolution unaided would complete the task. In other words this generation might enjoy what would naturally fall only to generations to come.

A scrutiny of our business system will show any one, I believe, the following serious defects:

1. Temporary profits have undue consideration
2. There is no safeguard against monopoly
3. What is not profitable cannot be well done.

(1) A business man willing to take a loss this year and next for the sake of larger profits in the third year and the years following, is rare in the United States. Some may be found to do so, but few are willing to embark deliberately on such an enterprise. Yet this is precisely what German manufacturers were

doing before the war and what made them such dangerous business rivals. During the development period of loss taking they could not be met and thereafter they were successfully intrenched. Only greatly superior national resources can enable a nation keyed up to temporary profits to stay in the race. The temporary profits enterpriser is in a position analogous to that of the business man who does not allow for depreciation; good fortune may tide him over. The long time point of view is a new impulse in the business world — one of those great sweeping changes in method that can be met only by adopting it.

But the long time point of view is concerned with more than direct profit taking. It studies costs from a long time point of view also, giving special emphasis to the future promise rather than to temporary out-go. It is more than a coincidence that the German business man should be following this new philosophy and that the German city should, at the same time, show a degree of socialization of city services not found elsewhere in the world. The two are inseparable. The first points the way to the logic of the second and the second gives such favorable cost results as to make the long time profits theory easier to apply.

(2) Our system as it stands provides no remedy

for monopoly: rather it drives us to it in many lines of business. Nearly every one agrees that monopoly is undesirable and consequently we can dismiss that point. Also elsewhere in this book I have shown that other business suffers not merely from a monopoly charge but from a supercharge growing inevitably out of temporary overreaching and the decay of the monopoly management. Our larger city utilities are, of course, monopolies and are ever approaching if not reaching the supercharge condition. The charge cannot be the charge that will yield the maximum amount of service for a given investment but a charge that will give this investment the largest possible return. There is a very wide gap between these two services. As has been said regulation is a failure and even when it succeeds temporarily the service falls a long way short of the maximum service for the given investment. Socialization is the only way out of the difficulty.

(3) My third point, that what is not profitable cannot be well done, touches a most serious weakness of our system. It is an argument, however, for allowing the city to do many things not now done at all or done very poorly rather than for the city ownership of utilities now profitable. There is no money to be made, for instance, in supplying adequate business and

industrial training: there is no inducement to private capital to handle sanitation or to give medical aid to people too poor to reach a qualified physician. The trouble with these and other needs of an analogous nature under our system is that the benefits reach the community at large before a private enterpriser could collect the fees for his services. In no branch of production, probably, do the producers collect all the benefits of that branch of production; something positive is acquired by society. But the enterpriser must be allowed to collect a large part of this real net worth or the service under consideration cannot be undertaken privately. With the classes of service I am treating the benefits cannot be coraled in time for private enterprise. Yet by being spread over society not a dollar is lost to productive business of the city and although somewhat slowly effective at first, productive business in time reaps great differentials from them. Private charity and philanthropy, for instance, are now fooling around with superficial volunteer methods in many fields of great concern to the city's business welfare. They have to be superficial because neither the funds available from private beneficence nor the controlling spirits are anywhere near equal to what the particular field needs.

CHAPTER IX

THE GOVERNMENT OF THE CITY

Any serious effort to reduce external costs must involve the development of the city government to complete representation of the productive forces of the city and to a higher plane of efficiency as an economic agent. If it be true that the wastes and other inefficiencies of city government must be borne by the producers of the city, if these are like weights of so many pounds which they must carry along, then production can be given differentials by the removal of these weights. Such action would remove the negative characteristics of the government; in addition there are the great possibilities of positive action by the city government, embracing new and helpful functions that are not now normally performed by this agent.

The first step in improving the city government must be the destruction of the indifference of the citizen towards the city. That is a rock on which many splendid visions and possibilities have been

wrecked. How can this indifference be removed? The cause of it lies in the failure of the citizen to realize the many points at which the city government touches his life and business. Our extreme individualism has closed the mind of the average citizen to the most obvious and important relationships. He fails to see where the city is injuring him and he fails to see where it might be a positive aid. The city has appeared to have direct relations only to those enjoying or anxious to enjoy some special privilege. The solution of the problem of indifference really must consist in making the citizen see his relation to the city as clearly as the beneficiary of special privilege sees his.

Only through the indifference of the average citizen can the sinister forces get control of a city, for in every city these comprise a small minority of the citizens. Once in a while the majority may bestir themselves, throw out the corrupters, and institute some thorough reforms, but up to the present these movements have depended on emotion and the powerful personality of some leader. There has not been a clear grasp of the everyday, matter-of-fact relations between the city and individual which would keep the fires of reform burning when emotion had spent itself or the leader had passed on. Little of an economic

nature can be built on emotion; it flares up quickly and fiercely, but it is as quickly exhausted. Interest in city affairs must appear to the citizen to be as sharp and compelling as the realization that he must go to work in the morning, that the bills must be paid, or that his family must be sheltered, fed, and clothed. There can be no doubt that the city does have such an intimate, everyday relation, and its progress depends on the citizen's realizing this point — not in periods of emotional excitement but constantly. The least of the citizens has sufficient cause to give the city an interest second only to his special field of work, and the higher we go in the scale of occupations the more reason we find for such interest.

Ignorance is frequently given as the root cause for the failure of American city government, but ignorance does not explain it, at least general ignorance. If ignorance of a certain kind is meant — ignorance of external costs — the point might be granted, but the failure is surely not due to lack of ordinary intelligence. The supposedly least intelligent of the citizens, the unskilled and the skilled workmen, have been the strength of all genuine city reforms in recent years. On the other hand it is discouragingly common to find bankers, lawyers, and other professional men reacting wrongly on methods of city government.

When Tom L. Johnson was waging his uphill fight for better things in Cleveland, Ohio, the most "intelligent" group of citizens were against him. A dozen other reform administrations have had a parallel experience, and what these men stood for is now generally recognized as correct. Not long ago the Manufacturers and Merchants Association of Wisconsin was leading in a state fight against giving cities the right to own certain profitable utilities. Perhaps in this fight as in so many others the utilities created the opinion and the many manufacturers and merchants who would gain by lower service costs, were led like lambs to the slaughter.

A good example can be taken from the city of Pittsburgh. The State of Pennsylvania has for a long time exempted machinery from taxation and in 1912 a movement was launched to shift 50 per cent. of the taxes on improvements to land over a space of ten years. Any one who has known Pittsburgh, knows how imperative it was that this city should do something to loosen the grip of the land speculators. The city's business and its population were being strangled for lack of land while great areas were unimproved. The Pittsburgh Chamber of Commerce was strenuously opposed to the movement; most of the leading citizens were opposed. In spite of them the measure became

a law in 1913 applying to Pittsburgh and Scranton. Since that time the Scranton Chamber of Commerce has fought against an attempt to repeal it and the Pittsburgh Chamber of Commerce has been using it in its arguments to factory locators.

The monthly bulletin of the Lockport Board of Commerce in March, 1917, carried the following item:

WHAT OTHERS ARE DOING

"The third class cities of Pennsylvania are demanding that the legislature give them the same privileges that the second class cities of Scranton and Pittsburgh enjoy in the matter of taxation. These cities are working under an assessment system by which improvement values are subject to a general reduction amounting to 50 per cent. within about ten years, thus encouraging the greater use of building sites and discouraging the holding of land out of use.

"A step towards the single tax. What are the cities of New York State going to do, when the cities of Pennsylvania have secured this advantage on securing new industries? About time we did something, isn't it?"

SINISTER INFLUENCES

Something might be gained by being more explicit on the term *sinister influences* in the city government, although such an attempt may appear like one of St. Paul's catalogs of the wicked. St. Paul probably omitted a few species and the list of evils here presented is likewise obviously incomplete. In practically

every community from the village to the great metropolis we find: unequal assessments for taxation, local improvements at the expense of the whole city, the theory that the town is helped when the city buys locally no matter what the price, delegation to certain individuals of the right to furnish certain supplies, ward patriotism, utility influences, industrially insolvent enterprises, and land speculation.

It is impossible to study a city government at all closely without finding several of these influences. Where the city government has drifted along without reform, all of them and more are found. The endless bitter fighting in every small city grows out of the question as to which faction will get the spoils from these practices. It is rarely a struggle between progress and conservatism, between right and wrong, but as to who shall dip into the city's social wealth. The majority of the citizens do nothing or casually back this or that faction in the game supposedly having no direct bearing on themselves.

UNEQUAL ASSESSMENT FOR TAXATION

The control of the assessor's office and the board of equalization is an important part of city politics. Those who are "in right," can get low assessments and consequently low taxes. Any one who is holding

a considerable portion of vacant land for a rise, is greatly aided by low assessment: perhaps his holding the land is dependent on getting this privilege, for land holding without use is expensive. These few low assessments, on the other hand, must be compensated for by overassessment of other properties. The assessor must ferret out every improvement, even the new bath tub, the fresh coat of paint, or the trees planted in the lawn. The possibility of a low assessment will force an otherwise fairly good citizen into supporting other corrupters of the city.

Although there is a great deal of fraudulent assessment, or worse failure to assess at all in our cities, an even more important cause of inequalities is the absence of scientific methods of assessment. Scientific methods are almost unknown in assessment offices; guess work is almost universally the means of arriving at real estate values, and the assessor is liable to be very poor even at guessing. To guess well he should know a great deal of land values and of the cost of different types of improvements. In the small city he may understand values of small buildings, for instance, but he is helpless in valuing new types of construction; he may understand farm and residence values, but fail to appreciate industrial land values. The mistakes arising from the absence of scientific

methods are valuable to some of the citizens — perhaps leading citizens — and this gives them a motive for supporting things as they are.

The assessment of the city's real estate should be made by disinterested experts. It should follow a scientific plan. It is not a task where cheap service is profitable. The Somers System[1] designed by W. A. Somers which appears to meet the necessary demands of a scientific method, has been used satisfactorily in many cities. By it land and improvements are assessed separately,— a most important principle of scientific assessment. In assessing land, the value of a unit — a strip of land of one foot frontage and one hundred feet in depth — is obtained, and by means of a few simple mathematical equations the value of a lot of any width and depth is determined. The value of a unit in the heart of the business district is determined and from this point the assessment proceeds toward the city limits having due regard for the many variable factors. The following results obtained from the use of this system in Beaumont, Texas, a city of about 21,000 in 1910, show eloquently the faults in the usual assessment methods:

[1] See article by W. A. Somers: "The Valuation of Real Estate for Taxation," *Nat. Mun. Review*, April, 1913, p. 230.

Assessment 1911 (supposed 60 per cent. basis)	$15,731,433
Assessment 1912 (actual 50 per cent. basis)..	17,370,595
Increase	$1,539,162
Number assessments lowered	942
Amount added to assessments of 63 taxpayers	$1,154,351
Number of taxpayers owning property heretofore unassessed	286
Assessment of buildings heretofore unassessed	$125,120
Assessment of land heretofore unassessed	$80,750
Amount of back taxes collected on heretofore unassessed property in excess of	$4,000
Assessment made for the first time of Public Service corporations for the use of the streets, by application of Somers System	$122,040
Amount added to Railroad assessments for use of streets	$475,543 [1]

Thus by the old methods 942 property owners had been paying too much in taxes; 63 taxpayers were underassessed by over a million dollars; 286 had owned property not assessed at all; and buildings and land to the amount of $205,870 had escaped assessment. Public service corporations were assessed for the first time for the valuable privilege of using the streets. The railroads were found to be underassessed by $475,000. Each one of these under-assess-

[1] From a statement by the Manufacturers' Appraisal Company of Cleveland, Ohio, the company which had charge of the assessment.

ment and non-assessment items constitutes a reason why the beneficiaries should desire control of the assessment office. Their small number and the large amount involved are also worthy of note. When put together the total of the amount at stake and the probable power of the beneficiaries, constitute an important sinister force. Only a wide awake electorate can successfully oppose them — an electorate which sees clearly what it too has at stake.

The results of a scientific assessment in Los Angeles County, California, in 1916–1917 were as follows:

Land values (1915–1916 assessment)	$440,390,555	
Land values (1916–1917 assessment)	533,617,675	
Increase	$93,227,120	21.16%
Structures (1915–1916 assessment)	$175,459,990	
Structures (1916–1917 assessment)	169,501,500	
Decrease	$5,958,490	3.42%

"The total cost of the work in Los Angeles County according to the financial statement of the Joint Bureau of Appraisal which was filed April 7, was $111,472. The work inside the city of Los Angeles required $63,948 of this amount. About two-thirds of the amount was expended on the appraisal of improvements, the remainder in land valuation work." (After the first scientific appraisal has been made, the cost of appraising property for a number of years following is light. Detailed changes only are made to keep the assessment up-to-date.)

"Property owners receiving their tax bills this fall in many instances found them considerably lower than formerly, except in the case of property located in the central high value section, which in many instances has been raised from 50 to 300 per cent. on the city assessor's books. This would indicate a large loss in revenue to the city for past years." [1]

While the large property values are escaping taxation and while many more are underassessed, the city must neglect and pinch its services to the producers of the city. Land is encouraged to stay out of use by it; the schools are kept poor; sanitation is more or less neglected; and the general city government activities are wastefully conducted for lack of ready funds. Mark this: these conditions are universal where scientific assessment of real estate has not been used.

LOCAL IMPROVEMENTS FROM CITY FUNDS

The practice of making local improvements wholly or partly at the expense of the city must inevitably lead to corruption. It offers something for nothing or better the price is paid in terms of political power, a power acquired by bargaining with every other factor in the city of any strength also looking for something for nothing. If a strictly local improvement is necessary and is carried out efficiently, it will add a

[1] *The American City,* December, 1916, p. 663.

great deal more to the value of the adjacent land than its cost. Instead of questioning whether it is advisable to assess for the cost of local improvements, it would be fairer to question whether more than the cost might not be charged to those whose land is benefited by the improvement.

LOCAL BUYING

When the price is as low as can be obtained elsewhere or lower, it is a good thing for the city to buy locally. To the price element might be added several minor considerations such as quicker delivery and a possibility of seeing the goods before purchasing. But aside from this there is no valid reason for local buying by the city. If higher prices are paid, the difference must be added to the cost of city services to productive business. Until this principle is recognized, efficiency in city buying is impossible. Where the "buy at home" philosophy is carried out consistently and is a matter of city patriotism, those who supply the city are quick to take advantage of the situation by increasing prices. The "buy at home" cry is kept up by those who have things to sell to the city and who desire what amounts in practice to a protective tariff against cheaper goods from the outside. The great danger of the local buying propaganda is

that it is liable to appear just and fair to citizens who think they are disinterested. The appeal to patriotism is rather hard to withstand.

RIGHT TO FURNISH SUPPLIES

Practically every city has the sanctity of its buying protected by drastic state laws and by iron clad ordinances; yet in most cities it will be found that certain individuals get the bulk of the business. The safeguards fail because the citizens are not alert to enforcing the laws. The need of the city for supplies, for bank accommodations, and for construction work gives those who have charge, considerable means of bargaining for political support. Those who can produce the support get the business. The citizens as a whole pay for the corruption of their city or better their own corruption. The merchants, bankers, and contractors getting the business must line up with the other sinister forces.

Not long ago the manager of a small city was harassed by a local bank because he refused to allow a large special fund to remain on deposit at 2 per cent. He wished to put the money on time deposit at 4 per cent. He was ordered not to make the change. It is common to find a bank favored by the city govern-

ment opposing financial reform because it makes a high rate of interest on the over-drafts.

Again there is the local contractor who underbids outsiders because by being "in right" he knows the city will not force him to live up to specifications. Frequently our admiration for the citizen who sits on the city council year after year for a dollar a meeting, wanes somewhat when we discover who the parties supplying the city are, and when we inquire into the price and quality of the supplies and the quality of the contract work.

WARD PATRIOTISM

The ward system plays an important part in underground city politics. Practically it splits the cities up into little cities and leads to giving the ward interest precedence over that of the city. "Getting something for the ward" means getting something at the expense of the rest of the city. As soon as the ward reaches this stage of thought, the controlling interest in the ward allies itself with other sinister influences as a means of getting by with its aims. It adds its political power to that of others seeking special privilege.

Again it is not an accident that city wards differ so much in population. The smaller the ward the

larger the political power of the voters in it. Consequently the wards containing voters largely conservative and contented are kept small; those containing voters likely to demand better things are kept large. When a certain faction or influence is in control, it naturally and logically uses the possibilities of the ward system to safeguard that control.

INDUSTRIALLY INSOLVENT ENTERPRISES

Any enterprise is insolvent industrially when its product is of a socially harmful nature, or when it does not really support itself entirely. Among the obvious forms of such enterprise are depots for stolen goods, the procuring of women for immoral purposes, and the loan shark business. Some would include the American saloon. Among the less obvious are the sweatshop, the factory maintaining dangerous conditions of work, the stores paying less than a living wage. These enterprises must be carried more or less on the back of the solvent enterprise in the city or the city would rapidly rot out. The insolvent do not maintain themselves.

Every industry involving more or less misery and degradation is a liability to the city and that city is fortunate indeed which contains few or none of them. Not being industrially solvent and consequently in

danger from any enlightenment of the citizens, these enterprises endeavor to acquire political power. In exchange for protection they augment the strength of other sinister forces.

LAND SPECULATION

The fact that land can absorb value from so many different activities, is liable to throw the land holder, especially the large land holder, into the arms of other sinister influences. The man who can know which way a transportation line is to extend, has a sure thing in land speculation. Those who can place public improvements of other kinds near their own property are likewise fortunate. The crowding of the tenement district adds to its land value. Low taxes on unimproved land are an advantage.

If land speculation were carried on with foresight and good sense, some of the evil results would not be obtained. But the great number of real estate speculators are chiefly interested in next year's values. Low taxes and lower taxes are thought of as the necessary means. As cities are conducted at present, no class of citizens has so much real profit to gain by extensive improvements as the land owning class because the people have to pay well for all these desirable things in the necessary expansion they give to

land values. The tangible results from the expenditure of taxes raised from all the people flow chiefly to the land owner. His short-sightedness, however, makes him overlook these gains; it forces him into bargains with others opposed to improvements and looking for special privilege.

By no means all of the larger land owners are afflicted with this short-sightedness, but in every city there are enough of this type to do great harm. Perhaps much of the short-sightedness springs from the fact that so many land holders are not business men in the strict sense of the word. They are sons who have held on to the old farm after the city grew around it; they are estates left in this form because the men who made the money were afraid the heirs could not keep it in active business; they are institutions more concerned in regular income than in long time profits. In short the owners do not have the dash, courage and enterprise of active business men. Factories demand intelligence, stocks and bonds must be watched, but a jackass, provided he possessed citizenship, could be a successful land owner. Our land system is a guarantee against losses from incompetence. It will act as a drag on our active business, as a means of continuing incompetent rule, as a corrupter of city life

until active business men and workingmen alike decide to root out its insidious power.

REMEDIES

Such are the more important and common sinister forces preying upon the vigor of our cities. A great many citizens are unconscious of their existence; some while having seen a little of their harmful influence do not realize how serious they are. Not a few citizens seeing the situation clearly feel that it is hopeless; there are wheels within wheels; the sinister forces can reach the man who starts anything through his bank, his clubs, his church, his business. Many are kept quiet by reluctance to hurt the fair name of the town. But these forces must be whipped, driven out if the town is to remain or become fair in name or in fact. Few cities succeed in hiding their corruption by failure to prosecute. It is expressed in the physical form and atmosphere to even the superficial observer; the conversation of the traveler and the biting arraignments of the so-called muck-raker in print and on the platform, carry its shame about the country.

On the other hand personal prosecutions such as have been conducted in Chicago recently and a little earlier in San Francisco, do no lasting good. These

sinister forces are not persons; they are conditions. As fast as one crop is gathered into jail or expelled from power, another crop is coming to harvest. Men will always take money when it is spread out for them even if the taking involves some danger. They take it the more readily when it appears possible to secure immunity by political power. The sinister influences have failed for a time in different cities because they lost political power first and they see their problem not as that of directing their energy, talents, and capital to other fields but as that of patching up the weak spots in their political control.

A few years ago the common belief was that what the city government needed was honest men. With honest men the government would sail along in splendid fashion bringing to port what the good citizens expected. Later the watchword became "A business man's government." Both of these means have been tried and both have failed. They fail because the American city needs more than honesty; it needs more than rule of business men as that term is generally understood. Honesty is essential, business methods are essential, but to say that either one or both is enough is like considering a civilized man clothed when he has only a pair of trousers or trousers and shirt. The great evils of city government spring from

waste, short-sightedness, and false conceptions of the city. Honesty in itself has nothing to do with these. Also when the business man gets control, he carries to the new work the false theories of city life current among the citizens. His rule is likely to result in intrenching more solidly the factors hostile to industrial growth; furthermore he contributes system to many evil practices that heretofore have been less powerful for lack of it. Cities need business methods, of course, but business with a new and more explicit definition, a definition that does not regard every operation involving the exchange of money as business to be encouraged.

The men at present in charge of the city governments in the United States do not deserve their somewhat evil repute. It is decidedly unfair to expect of a man in public life a higher standard of honesty and regard for public welfare than is found among business men. Whenever a politician goes wrong, business men are sharing in the wrong. When a man is in "business," it is legitimate for him to make net profit his object and in the pursuit of this, success and keeping out of jail establish his social standing. He may accumulate a fortune by short weights, adulterations, or monopoly profits. When he takes public office, however, he is expected to forget all he has learned in private busi-

ness; he is expected to pass with scorn any opportunities to add to his net profit or income. The little extra money that these men may pick up now and then is negligible as compared with what certain forms of private business exact from the city's prosperity. This point also is to be noted: if many men who are dishonest in public life were to refuse to take these considerations, they would still have to do the harmful acts or get out of public life. If the sinister influences are strong enough to bribe, they are strong enough to control. The alternatives of going out of business or dishonesty are an unfair test. The great mass of business men would not go out of business under such a test, especially if the dishonesty is fairly safe from punishment and when the definition of honesty involves new standards of social conduct.

Fundamentally nearly all men are as honest now as men ever will be. The breed will not be greatly imimproved: our fathers were about as honest as we are. What does change and can be changed is the environment, the possibilities of gain or loss through certain practices beneficial or harmful to society. Not exhortations to be honest but a new attitude toward the city is needed. The producer must see his intimate relation to the city; he must see his life and success as bound up in it. Then and then only

will the city government be put in desirable shape, for then and then only will there be sufficient political force to clean out the sinister influences. Not an honest government, not a business man's government, but more is needed — a government devoted to finding differentials for its producers, supported at all times by those whose welfare is involved.

CHAPTER X

THE MANAGER PLAN OF CITY GOVERNMENT

Inventions are as possible and necessary in the field of city government as in the arts. A new and better method is as much an invention as a newly developed machine, and may have fully as important a relation to business costs. The successful efficiency expert is essentially an inventor of methods. As more attention is given to city government (and such increased attention is inevitable in as much as business is so bound up with it), increasingly better methods will appear. The old methods or lack of methods are so wasteful that increasing thought must be given them with the growing sense of the relation of the city to the business life of the citizen. One such new and promising method or invention is already upon us — the Manager Plan of City Government.

CITY GOVERNMENT A TOOL

City government in its various forms found here and there throughout the world, is a coöperative

activity. The form used in any particular city is merely a tool or method, and it should be retained, amended, or discarded according to its effectiveness in accomplishing the coöperative purposes. There is nothing sacred about a form of city government; the only valid defense of a certain form is its relative adequacy to the need, to the functions desired.

The old mayor and council plan and the less common commission plan fail to pass the test of adequacy to needs in American cities. The first and common type is terribly inefficient for the city government functions in the old sense. When new functions are called for, when the city government is regarded as an aid rather than a policeman, these inefficiencies are the more apparent. When we wish to smoke out special privilege, we find the old form full of hiding places especially designed to check and thwart the will of the citizens. Only wasteful conservatism and lack of interest keeps the common form and the commission form alive. The question is not whether a certain American city will discard the mayor-council form or the commission form but when. About 100 cities in the United States now have the manager plan and they are getting more than normal advantages from it where they are seriously using it because so many cities are clinging to less efficient plans of government. Up to the present

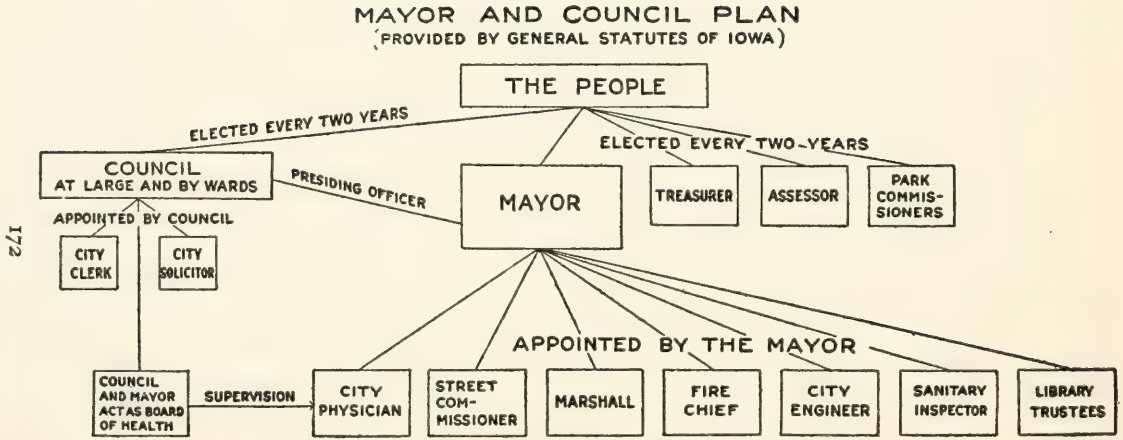
MAYOR AND COUNCIL PLAN
(PROVIDED BY GENERAL STATUTES OF IOWA)
THE PEOPLE
ELECTED EVERY TWO YEARS
ELECTED EVERY TWO YEARS
COUNCIL
AT LARGE AND BY WARDS
PRESIDING OFFICER
MAYOR
TREASURER
ASSESSOR
PARK COMMIS-SIONERS
APPOINTED BY COUNCIL
CITY CLERK
CITY SOLICITOR
APPOINTED BY THE MAYOR
COUNCIL AND MAYOR ACT AS BOARD OF HEALTH
SUPERVISION
CITY PHYSICIAN
STREET COM-MISSIONER
MARSHALL
FIRE CHIEF
CITY ENGINEER
SANITARY INSPECTOR
LIBRARY TRUSTEES

Figure I

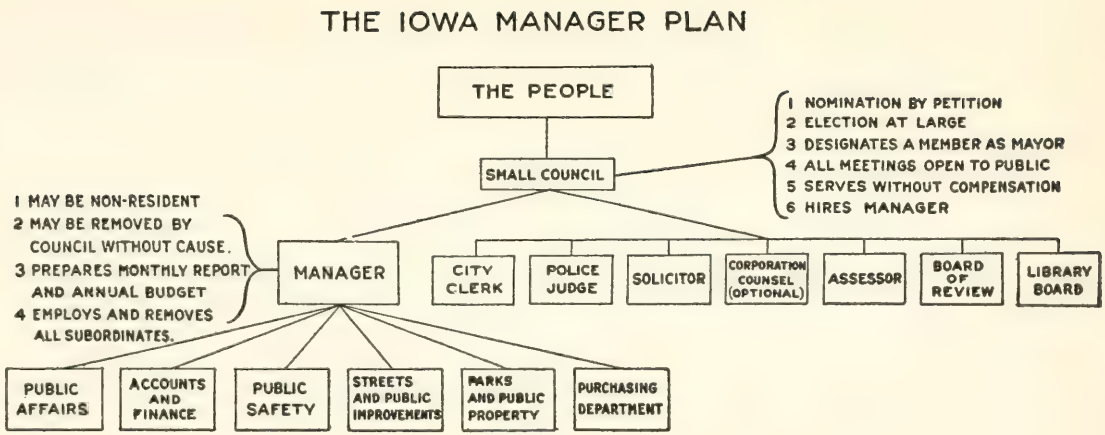
THE IOWA MANAGER PLAN
THE PEOPLE
SMALL COUNCIL
1 NOMINATION BY PETITION
2 ELECTION AT LARGE
3 DESIGNATES A MEMBER AS MAYOR
4 ALL MEETINGS OPEN TO PUBLIC
5 SERVES WITHOUT COMPENSATION
6 HIRES MANAGER
1 MAY BE NON-RESIDENT
2 MAY BE REMOVED BY COUNCIL WITHOUT CAUSE.
3 PREPARES MONTHLY REPORT AND ANNUAL BUDGET
4 EMPLOYS AND REMOVES ALL SUBORDINATES.
MANAGER
CITY CLERK
POLICE JUDGE
SOLICITOR
CORPORATION COUNSEL (OPTIONAL)
ASSESSOR
BOARD OF REVIEW
LIBRARY BOARD
PUBLIC AFFAIRS
ACCOUNTS AND FINANCE
PUBLIC SAFETY
STREETS AND PUBLIC IMPROVEMENTS
PARKS AND PUBLIC PROPERTY
PURCHASING DEPARTMENT

Figure II

at least the publicity obtained by changing to the manager plan has alone made the change very profitable.

ESSENTIAL FEATURES

The diagrams in Figures I and II contrast the city government plan provided by the general statutes of the State of Iowa with the manager plan recently made possible in that state. This Iowa manager plan can be regarded as expressing all or nearly all the best thought on the manager plan except for the method of electing the council and treatment of the city clerk's office, and the older plan is sufficiently typical of city government plans elsewhere for the present purpose. The following contrasts of the new plan with the old will be noted:

1. Abolition of the ward system
2. Unity of administration
3. The hired manager
4. A smaller, unpaid council
5. Budget system made a matter of law
6. A purchasing department
7. Monthly reports provided for by law
8. Checks on ordinances affecting finances and utilities.

ABOLITION OF THE WARD SYSTEM

The ward system is a stronghold of reactionary city politics. Originally designed perhaps to give important sections of the city adequate representation in the council, it has resulted in setting the interest of the ward above that of the city as a whole. Our city methods are such that a ward with sufficient political power can get things for itself, improvements and services purely local and perhaps benefiting only powerful persons in the ward, at the expense of the whole city. This hope is ever dangling before the ward and it has been fulfilled so often in every city that the normal scruples and sense of fair play are lost in the emphasis put on the hoped for result. The ward citizens will line up readily with the special interests and vice of the city in this hope of something for nothing. In the long run it does not even benefit the ward because it hurts city growth, but the ward's point of view is dangerously temporary. All the wards would gain if they could call the game off and that is precisely what the real manager plan makes possible. I say possible because a commissioner elected at large may continue representing a special geographical district of the city rather than the city. When combined with the system of proportional voting, the manager plan makes

possible a representation of the different classes of citizens — a much more logical representation and one which harmonizes with the interest of the city as a whole.

City wards are commonly so laid out as to promote reactionary politics. Due to differences in population, a citizen in one ward may have half or less of the voting power in council elections a citizen in another ward may have. Much of this difference is due to natural growth in population — one ward growing much faster than another, and if equal representation were desired the ward lines would be changed or the number of them increased. The inequalities, however, hang on and grow. The thinly populated, fashionable residence ward may thus have three times as much representation as the tenement ward. Its power enables it to get new pavements, parks, and boulevards largely at the expense of the city while the tenement section lacks even the minimum for business and health. The ward system is a checker board in the alluring game of getting something for nothing out of the city.

UNITY OF ADMINISTRATION

Unity of administrative functions is essential to unity of action. By putting the several active departments of the city government under the manager with

the power of "hiring and firing" in his hands, the city assures itself that these will work together in the direction determined through the council by the citizens. When the manager plans out a certain course of action, he has in his hands all the offices or functions necessary to carry out that activity. The water department cannot refuse to coöperate with the fire department or with the auditing department. The police department cannot act independently of the rest of the administration. Along with this unity of action goes unity of responsibility. The citizens know exactly where to look for lack of performance. A policy determined on by the citizens cannot be brought to naught by the shuffling of the cards of independent city offices.

"The duties of the manager shall be:

"(1) To see that all the laws and ordinances of the city are faithfully enforced and executed.

"(2) To attend all meetings of the council.

"(3) To recommend to the council such measures as he may deem necessary or expedient for the good government and welfare of the city or town.

"(4) He shall have the general supervision and direction of the administration of the city or town government. . . .

"(5) He shall have power to employ and discharge from time to time, as occasion requires, all employees

of the city or town, and to fix the compensation to be paid to such employees, except as otherwise herein provided. . . .

" (6) He may, without notice, and summarily cause the affairs of any department or the conduct of any officer under his supervision, or of any employee, to be investigated. . . .

" (7) He shall take active control of the police, fire, and engineering departments of the city or town. . . .

" (8) He shall, in his discretion, issue licenses, authorized by law, and may revoke the same at pleasure. . . .

" (9) He shall keep the council fully advised of the financial and other conditions of the city or town, and of its future needs.

" (10) He shall have power to appoint or employ persons to fill all places for which no other mode of appointment is provided, and shall have power to administer oaths." [1]

THE HIRED MANAGER

The determination of policies and the placing of adequate checks on performance, are the limits of what the citizen can do effectively in the city government. The carrying out of the details of these policies is a

[1] Code of Iowa S. S. 1056-b15.

matter to which he can give scant attention. Rather the city work calls for professional skill of a kind which the citizen does not have. In the election of the council — the policy determining body — the elector should make every effort to get men of his kind, men who believe as he does on questions to come up and whose economic interests coincide with his. All are qualified to make the choice of councilmen. In selecting the executive, however, the electorate are not so qualified. The majority of the citizens are poor judges of executive ability because they have so little to do with it, and because it is difficult to find a man who has the qualities to make the general public appeal necessary in running for office and also the desired executive qualities.

Where the mayor is elected, the voters must pay more attention to getting a man with the right reactions on public questions, for without these any executive ability he may have, makes him so much the more dangerous to the people. In fact under the old system, the mayor may have almost as much to do with determining policies as the council has. The manager plan shears the executive of this power; he is put absolutely under the council. The council is entrusted with the task of securing the good executive. If the council finds that it has made a mistake, it can change

managers immediately without assignment of cause. It can go to the ends of the earth in seeking this manager. A man who has made a good record as the executive of another city may be employed. In time this work will be a well defined profession, and the results will be much superior to those obtained by putting a "good" man in the mayor's office.

THE SMALLER COUNCIL

"Cities having a population of twenty-five thousand or more, shall thereupon proceed to the election of five councilmen, and cities and towns having a population of less than twenty-five thousand shall proceed to the election of three council-men; . . .[1]

"The members of the city or town council elected under the provisions of this act, shall serve and perform all the duties of their respective offices without compensation. . . ." [2]

A small body providing it is representative can get more of the kind of work desired done than a large body. The smaller council is not an essential part of the manager plan but it supplements it very nicely. A board of 50 to 100 directors would not be considered by a stock company and there is no more reason for

[1] Code of Iowa S. S. 1056–b1.
[2] Code of Iowa S. S. 1056–b9.

it in the city. In the city of under 30,000, five or three are better than ten. The only place to call a halt in decreasing size is the number below which fair representation of the different interests in the city cannot be maintained.

The only danger in the Iowa statutes relating to the council is the lack of compensation. It is dangerous to provide an office which a man without means cannot fill. Nearly every city expects the councilman to give a large portion of his time for practically nothing. In the long run the honest man cannot afford to do this; and the city cannot afford what the other kind of man takes for doing it. If a service is worth performing at all, it should be paid for. Joined with the manager plan, however, this lack of compensation is not so serious. With a good manager the council of the small city can dispatch its business with four hours of meeting a month. They have only to go over reports carefully and to outline the policies for future work. In the city of 30,000 and over, the council or commission most certainly ought to have compensation approaching the worth of the services.

THE BUDGET SYSTEM

" The manager shall prepare and submit to the council, an annual budget on the basis of the estimates of the

expenses of the various departments of the city or town. These department estimates shall show the expenses of each department for the preceding year, and shall indicate wherein an increase or diminution is recommended for the ensuing year. Such estimate shall be published in the official newspapers of the city or town, two weeks before such estimates are submitted by the manager to the council, and printed copies thereof shall be furnished to any citizen upon request to the manager. The budget so submitted to the council shall be taken up by it in open meeting. . . ." [1]

The budget system does not belong exclusively to the manager plan. Theoretically any city under any form of government may employ it. But in Iowa and probably in other states of the Union, it is not enjoined by statute with these other forms, and consequently it is rarely if ever used. On the other hand, no manager worthy of the office would be without one even if there were no statutory provision. The budget is the plan for the future; it expresses in definite form what the city hopes to do in the coming year; it balances liabilities and assets, expenditures and incomes, one activity against another. By so doing it distributes the city activities in proportion to relative merit. This budget or plan, changed only by emergencies, gives directness

[1] Code of Iowa S. S. 1056–b16.

and system to the whole year's work. The intelligent citizen can know at the beginning of the year what can and what is to be done; if the policy of apportionment appears to him to be wrong, he can work for a change; if he desires greater activity, he can see clearly the need for more revenue.

THE PURCHASING DEPARTMENT

"He shall supervise the performance of all contracts for work to be done for the city or town, make all purchases of material and supplies, and see that such materials and supplies are received, and are of the quality and character called for by the contract." [1]

The Iowa statute also provides that the manager shall establish a purchasing department for the city. This again follows the thought grouped around the manager plan. A city under any form of government could have a purchasing department, but only when the thought about the city government has advanced enough to call for such drastic change as the manager plan does the purchasing department get a real hearing. Its advantages are analogous to those of the purchasing department in the factory; perhaps they outweigh those of the latter.

The buying is done in larger quantity; needs are

[1] Code of Iowa S. S. 1056-b15.

foreseen from the previous year's records; buying can be done more according to specifications; an accurate system of checking and other accounting can be installed. Even if the many buyers for the city under the old system are strictly honest, it is folly to expect every one to use care and to keep accurate records. The rush of their own work frequently drives them into loose habits. The purchasing department may be misused, but there is no argument against it.

MONTHLY REPORTS PROVIDED BY LAW

"He (the manager) shall make to the council an itemized monthly report in writing, showing in detail, the receipts and disbursements, for the preceding month, and such report shall be made by him not later than the tenth day of each month. The reports so made, after having been passed upon by the council, shall be published each month in the official newspapers of the city or town." [1]

What has been said of the budget system applies with equal force to the monthly report. It is not peculiar to the manager plan but logically accompanies it. This report must be "itemized" and "show in detail the receipts and disbursements for the preceding month." The main fault to be found with this provision is that

[1] Code of Iowa S. S. 1056–b16.

it does not demand a better kind of report. A statement of receipts and disbursements (cash) can almost never show the true situation; it is of use mainly in keeping track of the cash and offers no help in management either to the manager, to the council, or to the citizens. The accounts of a city government should be modeled after those of an up to date business. There should be an annual if not a monthly balance sheet showing changes in assets and liabilities and there should be a revenue and expense statement. Expenses should be allotted so far as possible to the several activities that the government and the citizens may accurately balance achievements with costs.

There is no reason why cost analysis should be avoided by the city government. Accurate cost data will yield results in city work comparable to those obtained under good conditions by private business. At the present time no one knows what a certain piece of city work costs because records needed to establish this cost are not kept. The comparison of paving costs in different cities, for instance, either by contract or by direct work, is practically futile because items included in one may be omitted in another and probably all omit some items that should be considered in paving cost.

The city even more than the private business needs accurate analytic accounts. In the private business the

manager is so closely in touch with the situation that memory may bridge over successfully the gaps and shortcomings in book information. But those who should determine the policies of cities — the councilmen and behind them the citizens — cannot have this everyday familiarity. Memory supplies practically nothing; they must find the essential information in the accounting records. The sinister forces in city life thrive on bad municipal accounting and for the same reason the productive forces of the city should endeavor to improve the city accounts.

The following shows rather clearly the place and value of a balance sheet in municipal accounts:

BALANCE SHEET, CITY OF BLANK

ASSETS

Fixed Assets	January 1, 1914		January 1, 1915	
Land	$ 94,530		$ 95,030	
Buildings	87,950		96,800	
Public Improvements	534,450		591,600	
Equipment	27,865		39,345	
Total Fixed Assets		$744,795		$802,775
Current Assets				
Supplies	$ 2,950		$ 3,025	
Stores	5,370		5,500	
Accounts Receivable	37,890		40,390	
Unpaid Taxes	12,300		20,300	
Total Current Assets		$ 58,510		$ 69,215

Cash Fund Balances	January 1, 1914	January 1, 1915
General Fund	$ 2,350	$ 2,500
Park Fund	4,325	5,575
Paving Fund	13,380	14,280
Sewer Fund	6,275	5,395
Cemetery Fund	500	2,100
Water Department	3,895	3,580
Electric Department Fund	5,300	6,500
Total Cash	$ 36,025	$ 39,930
Sinking Fund Assets		
Cash	$ 1,725	$ 2,300
Investment	10,500	14,000
Total Sinking Fund	$ 12,225	$ 16,300
Total Assets	$851,555	$928,220

LIABILITIES

Bonded Debt		
Refunding 5%	$ 15,000	$ 15,000
Water Works 4½%	250,000	250,000
Public Park 4½%	25,000	25,000
Street Improvement 5%	50,000	50,000
City Hall 4½%	15,000	15,000
Paving 4½%	75,000	100,000
Total Bonded Debt	$430,000	$455,000
Current Liabilities		
Audited Vouchers	$ 30,400	$ 14,250
Total Liabilities	$460,400	$469,250
Surplus	391,155	458,970
Total Liabilities and Surplus	$851,555	$928,220

"The city owns $928,220 worth of property; the liabilities against this property amount to $469,250; and the surplus amounts to $458,970. A brief account of the administration of this property by the city council for the year past is shown by a comparison with the same statement for the previous year. One year ago the assets amounted to $851,555; the liabilities, to $460,400; and the surplus or amount of the assets actually paid for, amounting to $391,155. From the comparison of the two statements it will be seen that the property has been maintained, that additions have been made to the city's property, and that more of the property has been paid for, shown by the fact that the surplus increased.

"Statements of this sort, prepared year after year, give a clear idea of the policy of the city. They will show whether a city is paying for its improvements as it goes, or is piling up a debt against posterity. As long as the value of the assets exceeds the liabilities, the city is paying as it goes but when the liabilities exceed the assets, a debt is being laid up against the future. This will always be a warning and should affect the future financial policy. Such statements will also aid in keeping the city from issuing bonds to cover deficits from operation, as is often done at present." [1]

[1] Russell A. Stevenson: "Municipal Accounting," a bulletin issued by The State University of Iowa, p. 6.

Those who have tried to draw conclusions from a receipts and disbursements statement, will appreciate what a revenue and expense statement modeled after the following form, would mean not only to the citizens but to those directly charged with the management of the city activities:

REVENUE AND EXPENSE STATEMENT, CITY OF BLANK

Year Ending March 1, 1915

		Expense	*Revenue*
Revenue — General:			
General Levy	$160,000		
Ind. Divisions City	60,000		
Franchise Taxes	15,000		
Poll Taxes	2,500		
Other Incomes	12,000		
Total	$249,500		
Less Taxes Uncollectible	5,400		
Revenue — General Government			$244,100
Expenses			
Administration:			
Mayor	$ 1,800		
City Council	2,000		
Clerk and Auditor	4,000		
City Hall	1,500		
Elections	2,500		
Other Expenses	1,200		
Total Administration		$ 13,000	

		Expense	*Revenue*
Protective Services			
Police Department:			
Expense	$ 30,000		
Revenue	18,000		
Net Expense	$ 12,000		
Fire Department, Expense	36,890		
Health Department, Expense	95,000		
Total Protective Expenses		$143,890	
Commercial Services:			
Water Works Revenue	$117,200		
Water Works Expense	95,000		
Water Works Net Revenue.			$ 22,200
Markets and Sales Expense.	$ 1,000		
Markets and Sales Revenue.	800		
Markets and Sales Net Expense		$ 200	
Development Services:			
Highway Expense	$ 65,000		
Parks and Grounds Expense	15,000		
Library Expense	10,500		
Total	$ 90,500		
Special Assessment to Revenue	$ 5,500		
Net Development Expense..		$ 85,000	
Depreciation on Assets:			
Buildings (other than Commercial)	$ 2,000		
Public Improvements	10,000		
Equipment	1,500		
Total		$ 13,500	

Totals, Revenue and Expense	$255,590	$266,300
Revenue for Year.....$266,300		
Expense for Year..... 255,590		
Net Addition to Surplus...$ 10,710		

"The above statement is representative of the form which should be supplied to the city council for the purpose of budget making and to the citizens to judge the efficiency of the administration. The figures, although fictitious, might fairly represent the conditions which exist. All expenses incurred within the year are classified under the functions performed, and all revenues accruing within the year are classified under the sources from which they were received." [1]

CHECKS ON ORDINANCES AFFECTING FINANCES AND UTILITIES

"Every ordinance or resolution appropriating money or ordering any sewer or street improvement, or making or authorizing the making of any contract, or the granting of any franchise, or the right to use and occupy the streets, highways, bridges or public places of the city or town, for any purpose, shall be complete in the form in which it is finally passed, and, . . . shall remain on file with the city or town clerk, for public

[1] Russell A. Stevenson: "Municipal Accounting," a bulletin issued by The State University of Iowa, p. 6.

inspection, at least one week before its final passage or adoption. No ordinance passed by the council, except when otherwise required by the general laws of the state, or by the provisions of this act, and, except an ordinance for an improvement, the preservation of the public peace, health or safety, which contains a statement of its urgency, and is passed by a unanimous vote of the council, shall go into effect, before ten days from the time of its passage; and, if during said ten days, a petition, signed by the electors of the city or town, equal in number to at least twenty-five per centum of the entire vote cast in such city or town, at the last preceding general or municipal election, as shown by the poll books of such election, protesting against the passage of such ordinance, be presented to the council, such ordinance shall thereupon be suspended from going into operation, and it shall be the duty of the council to reconsider the same, and, if the same be not repealed, the council shall submit the ordinance to the vote of the electors of the city or town at a regular or special election, called for that purpose. . . ." [1]

[1] Code of Iowa S. S. 1056–b23.

COMPARISON OF MANAGER PLAN WITH STOCK COMPANY ORGANIZATION

The manager plan of city government gives the city approximately the system of organization employed by the stock company,— a commission or board of directors and a general manager who has charge of the administrative functions. It assures the city of responsibility and unity of effort to the same degree that these are assured the stock company by its plan of organization. The system applied to the city government will show approximately the same strength and weakness it exhibits in the business field; it will not grind out good results of itself, but at the same time no stock company would think of abandoning it. The attempt is rather to remove the factors which interfere with the plan.

In the stock company a majority control of the stock may run the company with entire disregard of the interests of the remaining stockholders. Under the manager plan those who can put the majority on the council or commission will probably run the city to suit themselves; worse yet this majority control may be in the hands of a few special interests through the apathy of the majority of the citizens. In the stock company the owner of a large block of stock may give himself

a lucrative position and others to relatives or friends; he may furnish the company with supplies at high prices, drawing more profit by this method than by simply sharing dividends with the other stockholders. By manipulation of news and reports he may force down the value of the stock on the eve of some profitable opening for the company with the idea of buying more of it at a low price.

Those who compare the manager plan with the stock company plan are liable to assume that the latter functions with 100 per cent. efficiency, and this error is liable to throw them off their guard in respect to the new system of city government. Nepotism, manipulation, out-and-out graft, and other special privileges are far from being unusual in stock companies. The manager plan carries these stock company possibilities with it. Is this, however, an argument against it? To answer this question we have only to ask: Would we not make stock company practice worse by giving the company the organization of the mayor and council type or the commission government type? A good system at most can serve only to carry out good intentions more effectively.

But the manager plan can be superior to the stock company plan in at least one important respect: it can give adequate and fair representation to the minority

through the use of the proportional or Hare System in voting for the policy determining officials. By this method any considerable group of voters can elect a councilman. The minority by electing one or more representatives can thus know what is going on at all times, can express themselves on the policies under consideration, and can frequently get sufficient support from majority representatives to vote down a policy harmful to themselves.

PROPORTIONAL VOTING

Although not generally thought of as a necessary part of the manager plan, the proportional system of voting adopted by Ashtabula, Ohio, with its manager plan and in use also in many European cities, is really necessary to make the manager plan function properly. The snag it removes is this: Under our present voting system the interest that can show a majority strength, gets all the representation in a council elected at large. An interest having nearly 50 per cent. strength would be without spokesmen. The proportional system, on the other hand, gives an interest a representation in proportion to its voting strength. A majority would have a majority in the council or commission, but the minority would also be there to bring its interests to light in the council and consequently before the public.

Professor Hatton described the result of the first election under this plan in Ashtabula as follows:

"How well do the men chosen represent the city? McClure is manager of a department in one of the large stores, Hogan is one of the leading physicians of Ashtabula, McCune is a greenhouse man, Gudmundson is assistant cashier of a bank in the harbor district, Earlywine is clerk and paymaster of a large ore company, Briggs is a newspaperman, and Corrado is a saloonkeeper. The business element may be said to have three representatives. The Irish, Swedes, and Italians each elected a member of the council. The socialists elected one member. The harbor district is represented. On the liquor issue three of the successful candidates are pronounced drys, three are classed as liberal, and one as very wet. The opinion in Ashtabula seems to be that, taking both quality and representative character into consideration, a better choice could hardly have been made from the candidates, that the new council will contain more ability than the present one elected on the ward plan, and that it will also be more representative of the entire body of the voters." [1]

The result probably caused not a few people to think

[1] Professor Augustus R. Hatton: "The Ashtabula Plan," *National Municipal Review,* Vol. V, p. 61.

less of proportional representation because a saloon keeper and a socialist or two got in, but this objection is beside the point. If one-seventh of the people of Ashtabula wanted to be represented by a saloon keeper or a socialist, they should be so represented. There can be no legitimate reason for keeping people from being represented by the kind of persons they want. In a democracy especially, there is no class, no matter how large, capable of deciding whether another group deserves representation. Even cranks if they can muster the quota deserve representation in the council.

This proportional representation or Hare System as it is sometimes called after its inventor is simple in practice and yet rather difficult to explain briefly because it is so different from the usual methods to which we are accustomed. Figure III, given on page 198, shows the ballot used for council members at Ashtabula on November 2, 1915.

These candidates had been nominated by petition and seven of them were to be chosen for the council. A voter marked one as first choice, another as his second, another as his third, etc. A voter had only one first choice vote. The total number of votes divided by the number of offices to be filled plus one gives the quota which a candidate must pass by one to be elected.

Sample of the Ashtabula Ballot as marked by a voter

MUNICIPAL TICKET

DIRECTIONS TO VOTERS

Put the figure 1 opposite the name of your first choice for the Council. If you want to express also second, third, and other preferences, do so by putting the figure 2 opposite the name of your second choice, the figure 3 opposite the name of your third choice, and so on. You may express thus as many preferences as you please. This ballot will not be counted for your second choice unless it is found that it cannot help your first; it will not be counted for your third choice unless it is found that it cannot help either your first or your second; etc. The more choices you express, the surer you are to make your ballot count for one of the candidates you favor.

A ballot is spoiled if the figure 1 is put opposite more than one name. If you spoil this ballot, tear it across once, return it to the election officer in charge of the ballots, and get another from him.

	For Members of Council
	FRED A. BRIGGS
	JOHN CARLSON
	M. R. COOK
	NICK CORRADO
5	ROBT. W. EARLYWINE
	JAMES H. FLOWER
	C. O. GUDMUNDSON
3	J. J. HOGAN
1	ROBERT LAMPELA
	GEORGE H. LOOSE
2	J. H. McCLURE
	E. R. McCUNE
	ARTHUR RINTO
4	E. N. TILTON

The voter who marked his ballot as indicated said to the Tally Clerk in effect: "Count this ballot for Mr. Lampela, who is my first choice; but if he does not need my vote, or if it is found that he is so weak that votes for him are useless, transfer this ballot to my second choice, Mr. McClure; if my vote cannot help either Mr. Lampela or Mr. McClure, count it for Mr. Hogan, and so on."

* * *

As Mr. Lampela was found in the counting to be hopelessly weak, this ballot was available for Mr. McClure. But Mr. McClure did not need it, already having votes enough to elect him. Therefore the ballot went to Mr. Hogan, and was one of the 372 ballots that elected him.

Taken from a bulletin on The Ashtabula Plan, published by the Ashtabula Chamber of Commerce.

Figure III

"In Ashtabula the total number of valid ballots cast was 2,972. This number divided by 8 gives a quotient of 371 4/8. The next whole number larger than this quotient is 372, and this was therefore the number of votes required for election. The number so established is known as the quota or constituency."

Those having more than the quota or first class votes are declared elected at once and the election of the remainder is determined by taking into consideration the second choices and third choices of the votes for elected candidates in excess of the number they required, and of those for candidates at the bottom on the first choice count. The method is such as to prevent practically any man's vote from not being useful in electing a councilman. Under the system now in vogue in the United States, on the other hand, if republicans, democrats, or socialists make up only 49 per cent. or less of the voters of a ward or city, they get no representation in the council at all. A mere statement of this condition ought to be enough to show that change is necessary if democratic ideals are to be realized, and the Hare System appears to meet this need surprisingly well.[1]

[1] The American Proportional Representation League, Haverford, Pa., or 20 Harbard Street, Toronto, Canada, is glad to furnish complete information on the Hare System.

CHAPTER XI

THE INDUSTRIAL SURVEY

The industrial survey is the means by which evidence of a proper kind can be gathered regarding the business conditions of the city. This evidence is a fundamental necessity for intelligent city action. Intelligent action is not insured, of course, by the industrial survey, but on the other hand it is practically impossible without it. The industrial survey is the outgrowth of the modern feeling that wherever the substitution of facts for opinion, guess-work, and personal bias is possible, there is a distinct gain.

City-wide surveys of different kinds have been common in America for some time, and previous to the beginning of these private surveys, the Federal Government had been doing a great deal in the census taking that could be called survey work. These surveys have had a variety of fields or objectives; some have been concerned primarily with health; others with housing conditions; others with the relief of the poor; some have endeavored to measure the trade possibilities of

certain territory for its retail merchants. Until recently the Federal Government was concerned chiefly with the facts about the population; numbers, ages, nationalities, sex, etc. Chambers of Commerce in a number of cities of the United States have been promoting also what they please to call the industrial survey. When lumped together the survey work that has been done appears rather impressive, but nearly all of it has been of a pioneer character. It has been essentially a groping after more exact information in certain fields; and while the method marks a distinct advance over the old methods, there has been a great deal of effort wasted in gathering irrelevant facts growing out of the lack of knowledge or from differences of opinion as to why the facts should be gathered. If we had a definite, accepted theory of social and economic life, we could gather facts through the survey method with clearness and precision, facts that would be directly useful, but since our thinking in these fields is in a state of flux and passing from one theory to another, we find that facts gathered under the dominance of one theory are of little use when another theory comes into play. The great mass of statistics gathered by our Federal Government, for instance, are exasperatingly incomplete for one who wishes to draw on them in support of some new theory.

This difficulty is especially noticeable in the latest arrival in the survey field, the industrial survey. There is great difference of opinion as to what this survey should include, as to what industry is, and above all the vigorous clash of theories in the field of economics. To some the industrial survey means the gathering of more or less striking figures to be used in advertising the town; to others it may mean the gathering of figures that may be used to guide the development of city industry, but they include in the field to be surveyed many things that should not be classed as industries at all; to still others the industrial survey means a survey of the conditions of labor. In the Spring of 1916, the Engineering Society of the United States made a survey of our industrial resources. The announced purpose of this was to find out what the industries of the United States might be able to do in case of war, and it was not at all designed to improve the status of the many industries as such.

Furthermore the industrial survey, in as much as it involves the conditions of production, must for a long time be emasculated by special privilege. The work cannot be handled scientifically because the results must be acceptable to certain interests. There is probably no university in the United States free to make a scientific study of external costs. No agent is free to be

scientific when it is predetermined what the findings must agree with. Professor Holdsworth's Survey of Pittsburgh shows this blight clearly. The same restraint appears in the Survey of Lane County, Oregon, conducted in part at least by the Extension Division of the University of Oregon. The period of land speculation the county had been through, the conditions of the logging industry, the conditions of the fish canning industry, the assessment and taxation methods, the utility costs, all of these and more had to be passed over as things too hot to handle.

WHAT AN INDUSTRIAL SURVEY SHOULD INCLUDE

What should the industrial survey be? What is its objective and its field of operation? Without stopping to consider and balance the various differences of opinion noted in the preceding paragraphs, let me give in a few words my own idea of the industrial survey which the theory of city development I have been treating up to the present time would demand. It must be primarily a survey of external costs of the several industries of the city which are competing with industries in other places. It should deal with conditions surrounding these industries and not with the intimate details of the business of the individual industries. It is concerned not with what goes on within the walls of

the factory, but with what is going on outside. In other words, this survey should deal with external costs. The public utilities of a city, its land owning interests and its banking interests should not be classed with industries, but among the factors constituting the external costs of these industries. It is not at all the object of an industrial survey to discover advertising material, although it may reveal certain favorable conditions that can be played up in advertising copy. Its essential aim is to discover and correlate the facts about the business conditions affecting the industry of the city, that the facts so gathered and correlated may be made the basis of intelligent action in reducing external costs.

The collection of intimate facts about a certain establishment, such as net proceeds for the year, methods of manufacture used, etc., would undoubtedly be useful in that if rightly used the individual manufacturers would be able to discover weak points in their own methods, but the gathering of such facts meets two very serious objections: (1) For the enterpriser to reveal these facts about his business would expose him to grave danger from competitors. (2) A sufficient number of enterprisers are aware of this danger to cause them to refuse information or to give information that would mislead. There is a possible third

objection in that these facts are in no wise essential to the industrial survey, and may well be left to a period of greater enlightenment to come.

Specifically the industrial survey should begin and end with the external costs and the main factors contributing to them. The costs of materials, labor, land, utility services, fire insurance, taxes, are the prominent subdivisions of such a survey. It is obvious, however, that the factors entering into these costs are numerous and unless some limit is placed on the extent to which the survey were to go, it would never be complete. The industrial survey should be limited to the immediate factors of the external costs and the more remote factors should be handled in subordinate surveys. The industrial growth of the city should be the first consideration, and in like manner, the industrial survey should be the starting point for all other surveys. In fact, it marks out the field and gives definiteness to any other surveys that may be undertaken, and all such surveys when properly handled will fit into their proper places under the industrial survey. Among such surveys the following would be important:

1. The retail business of the city
2. The utilities
3. Education

4. Recreation
5. The extent and causes of disease
6. Sanitation
7. City government
8. The use of the land
9. A possible city plan

The gathering of facts on the city life can never be complete. It is a tremendous undertaking, and workable subdivisions of the task must be formulated. Each subdivision can then be entrusted to an expert in the particular field.

INTERPRETATION OF THE RESULTS

Facts without proper interpretation are useless and facts with the wrong interpretation are pernicious. It has been pointed out that a definite theory must be had before facts can be properly gathered, and it is equally important to interpret the facts with sound theory. The theory essential for city promotion, as I have pointed out, demands a definite, concrete objective and scientific methods of reaching it. This theory can serve as a guide in collecting facts, and in turn the facts should serve as tests of methods considered for reaching the objective. In the specific methods, especially those involving engineering principles, experts

must be called in before definite steps are decided on. Careful estimates of costs versus possible returns must be made.

Let me emphasize here that in the interpretation of the larger aspects of the industrial survey new thought on economics is needed because the objective noted is one to which economists have given scant attention. The manufacturer who has given attention to costs within his factory, who has taken advantage of the new movement for private efficiency is better prepared for this work than an economist. The problem is to persuade more manufacturers and others to take up cost studies in their own enterprises seriously rather than to get them to read on economics.

THE SPIRIT OF CRITICAL STUDY

Dealing with costs in an intimate way initiates a man into the spirit of critical study necessary if he is to act properly on the many questions involved in city promotion. He learns to view the business and himself objectively; he learns to weigh and measure facts and methods with reference to recorded experience rather than with guess-work, notion and prejudice; he learns to weigh matters in terms of costs; he learns to view business steps apart from personal elements that attempt to force their way in. Without this, he often

decides important questions on principles really unrelated to the business. He may decide that a certain thing must be done a certain way because the establishment has always used that method. He may buy certain goods because he enjoys the personal qualities of the salesman. He may handle his employees in a certain way because he desires to establish some principle or method apart from the business, such as special respect or subserviency to himself or his opinion of the habits and virtues, people in other walks of life should have; he may advocate certain action or lack of action by the city government because he is friendly to this or that man who is promoting the particular thing. These and a multitude of other subjective matters have no scientific connection with the enterprise or its external costs, and are harmful quite as often as they are helpful to it. The habit of critical study demands skepticism of everything that is not definitely proved by facts. It demands a separation of the things studied from the self. The results of many a scientist's work in natural science have been greatly harmed by his inability to separate himself entirely from the field which he was investigating, and in business where the personal element endeavors to rush in so much more than it does in the field of natural science, how much more important it is that the investi-

gator should make special effort to guard against this danger!

E. St. Elmo Lewis sums up the spirit of critical study or the scientific attitude as applied to business in eight principles or rules:

"The present situation finds the more efficient managers recognizing and applying certain fundamental principles:

"First — Find the specific purpose of the thing or act.

"Second — Establish the real facts about our experiences.

"Third — Establish the real facts about the experience of others.

"Fourth — Think in facts, not impressions or gossip.

"Fifth — Arrange the facts in related groups.

"Sixth — Get the true relations and correlations of these various classes of facts.

"Seventh — Record the data and develop the data.

"Eighth — Harmonize a plan of action." [1]

These rules express the scientific method in business terms and as applied to business. They must be

[1] Lewis: "Getting the Most Out of Business," p. 48.

and are used wherever an applied science achieves success whether in medicine, engineering, or business. Business, due to the momentum of the past, has been slow to grasp the possibilities of science, but as Mr. Lewis points out the more efficient are now recognizing these possibilities.

AGENCIES FOR THE WORK

The field of the industrial survey is external costs, or the costs outside of the establishment, and the agency to carry out the various plans formulated from the survey must likewise lie outside of the plant itself. The forces that control external costs are larger than the individual enterpriser. The agencies available are two: (1) The city government, which embraces the whole city and (2) associations of enterprisers consisting of two or more. Many of the plans must be dependent upon city action and to get this action the majority of the voting citizens must be appealed to in a proper manner. In many cases this will involve a strenuous fight against some special interest which has entrenched itself in the city life, and in all cases it will involve a consistent campaign of enlightenment. The city is a crowd of citizens attempting to travel, but with no common purpose or objective. This crowd must be turned in the right direction and its rate of travel must

be increased. The proper development of other plans will call for a close association of the manufacturers in the city in one large group and several sub-groups. The nature of the connection between the individual establishment and the association must be roughly analogous to that which the department of the individual business has to the whole business. In all matters essential to external costs, the individual establishments must work together as one business unit.

The commercial club may be thought of as a valuable agency in promoting the reduction of external costs, but the commercial club is too cumbersome a machine to accomplish much in these rather delicate and intricate operations. In the first place the commercial club represents diverse interests. It is made up of all those citizens who are willing to contribute a certain sum to the expense of the club. Although the commercial club in current theory is devoted to the promotion of the city, it contains in fact many interests that are hostile to a healthy development. It contains interests that clash with those of the enterprisers who are competing with the outside world. Harmony is purchased in the commercial club by doing little or nothing that will offend any one group and this implies doing little or nothing of a broadly constructive nature. The manufacturers might, however, be associated with

the commercial club as a separate bureau capable of handling what pertains to their field and opposing interests antagonistic to theirs. It is possible to imagine a commercial club working vigorously for the growth of the city, but with the present state of thought on city growth it is too much to expect of such a body. Due to the lack of clear perspective the manufacturers of a city frequently allow men engaged in the utilities or in land speculation to have the controlling influence in the commercial club, and men of this type aim to acquire as much as possible of political and social power. With such men in control, no matter how capable they may be, the club will do very little in slashing external costs.

CHAPTER XII

THE FORCE OF CIRCUMSTANCES

The impression might be gained that whether enterprisers pay any attention to external costs is and will be a voluntary matter, that they can be free to ignore these costs at the expense of the possible savings involved. Also some may so underestimate these savings and so overestimate the difficulties of lowering them as to think: "What is the use?" "Let well enough alone." Such reactions are to be expected to every new thought, especially one distinctly new, and in all cases where the thought is valuable, they may delay action until little profit can be derived from it. There is much more gain in being among the first to take up a good thing than in being forced into it later on.

"The nation which profits most from the great European war," said Roger W. Babson in an article given to the press in December, 1917, "will be the nation first to bring about this spirit of coöperation between the different interests involved in production

and distribution." Is the United States making any progress in this direction that it is not forced to make? Is it so certain that we shall be first because we have coraled the gold supply of the world or because we have lost less men in combat? Continuing Mr. Babson says: "The city and industry which is to be the most prosperous during the next twenty years, will be that whose leaders get this new vision upon which my guess as to the future corporation is based." His vision briefly is that of discounting the influence of inherited and unearned wealth and greatly augmenting the influence of managerial ability and labor. As our foremost exponent of scientific capitalism, Mr. Babson emphasizes the danger of our top heavy control of production by ownership, the control by the idle hand, the dead hand, the hand of great economic power and little ability.

ATTENTION IS BEING FORCED

Attention to external costs will not long remain voluntary, because the competition of those cities and nations which give these costs attention will drive all the others to it and the penalty of being late will be that there will be almost no gain in such action. The fittest will push ahead, that is, the fittest to exist in a certain environment, in business as in the world of nature.

A new method that has productive vigor in it replaces the old and less efficient. So long as all cities had about the same methods, growth or lack of growth did not depend on directed city activity. Individual enterprisers took what was offered by the city and fought their business battles with individual efficiency. This new impulse, once well-started anywhere, will spread from nation to nation and from city to city.

The United States is fortunate among nations in its natural resources — soil, forests, water power, minerals, and natural transportation facilities. It is situated between the two great markets, Western Europe and Eastern Asia. It is nearer South America than is any of its rivals. It is so large and its production capable of such diversity as to make it a world of trade within itself. By far the greater part of the production of the United States is and will continue to be for its own markets. Our manufacturers, miners, farmers, distributors swap such quantities of goods with each other as are found in no other nation, either in total or per capita.

Up to the present, at least, the United States has been fortunate in its people. The greater freedom and the natural resources which we have had, have enabled the people to reach a higher standard of living, and this in turn has produced a greater individual efficiency. The

comparative amelioration of living conditions has enabled many of those who belonged to what is called the laboring classes to fill more important positions. A great deal of our industrial leadership has come from the so-called labor class. The greater freedom, the absence of fixed class lines, and the newness of our country kept production here in a state of flux — little was determined or fixed and as a result many new and valuable methods were able to gain a foothold. Our splendid showing in technical progress in all branches grows logically out of this condition.

These natural advantages and the improvement of the human factor which grew out of them and our free institutions are responsible for the present strength of the United States in production. A natural and common inference would be that these factors will continue to give us proportionate advantages, and that all we need to do is to go on about as we have. There are several factors that have appeared to disturb this complacent prospect and in proportion to the relative values we attach to them do we see need of changes in production theories and methods.

NEUTRALIZATION OF RESOURCES

First there is the neutralization of natural resources, or in other words, monopolization of these which in-

creases the price for the use of them to all who wish to and can use them. Our productive business is paying much more for these things than it did in the near past. There is every reason to believe that it will pay more in the future than it does now. A large part of the natural resources are held out of use entirely. Our oil, coal, iron, copper, agricultural land and many other less important resources are nearly all appropriated and the cost of them to the producers must be all the producers can stand; not infrequently it must be more than producers can stand and many have to go out of business. We have here a new factor that puts production under the power of the owners of natural resources. Will these owners use this power in such a way as to promote the maximum strength of the city, state, and nation in production? Will the coal owners, for instance, supply industry with coal at even a fair return on investment or will they ask all that they think industry can stand? What is the natural and probable attitude of these owners of natural resources? The experience of the past gives us little hope or reason to trust in them. In the recent wave of business prosperity the price of coal was doubled to the consumers. While those who controlled natural resources defended their prices on the plea of scarcity, they obtained enormous profits for themselves. How little of a differ-

ential it is to those who are making things — to have a country full of natural resources but monopolized!

Moreover the evil effects of a period of overreaching by those who control natural resources have not been sufficiently apparent. As soon as a period of prosperity is well under way, the owners of natural resources begin to speculate as to how far they can go in taxing industry. Rent goes up, coal goes up, iron goes up; the industries dependent on such factors endeavor to meet these rising costs by cutting other costs, by extending their markets, and by increasing selling prices. The better they succeed the faster does the cost of natural resources climb. Those who consume the products of industry, foodstuffs and manufactured goods, find these things getting beyond their purchasing power and are forced to cut down purchases. They try to get along with less and by so doing cut into their efficiency as producers; on the other hand, those who would sell to them, experience a slackening of sales. The result is inevitable — an industrial crash which pulls down many capable enterprisers and their organizations and a long period of depression in which the human factor is dragged through the knot hole of bad conditions. As some one has said, " A dollar may be laid on the shelf for six months with no loss except interest, but a man laid on the shelf for that time be-

comes a skeleton." All is not well if the human factor succeeds in dragging through the depression. The adverse conditions of such a struggle leave a permanent impairment of efficiency.

From the point of view of the nation's strength in production, natural resources can be so neutralized by the way they are handled as to furnish few or no differentials. The United States needs more than natural resources; it needs good uses of resources. Badly used, our interchange of goods at home will be much less than it might be, our producers will be impaired in efficiency, and our foreign trade will have little success. Trade is a matter of price, quality, and methods. Lower prices, better quality, and improving methods result in greatly increased trade territory.

The great danger to the producers of the United States lies in this: One or more nations in competition with us in certain lines may learn how and be willing to use their natural resources to better advantage. This will give their producers differentials over ours. Germany had done a great deal in this field before the war, and the exigencies of war have forced her to do still more since. England and France have adopted some of the German methods tardily and perhaps less successfully. Important natural resources in these three countries have been brought under close government

control as a means of stimulating the much needed productive strength of the nation. The Japanese have been quietly imitating the German methods through the stress of good sense rather than the stress of war. The profits on their tremendous war orders have gone chiefly to the government, and the government is running the utilities, including an undefined relation with its shipping business. It is hardly reasonable to suppose that these cost reductions discovered and made use of in time of war will be abandoned with the advent of peace. Rather the probability is that they will be used even more than now in the struggles for business. We shall have a Europe on the east and a Japan on the west that have taken great strides in socialization. The United States as yet is making no effort to prepare to meet this new form of differential which producers in these nations will probably have; rather it has been endangering its success in the war to safeguard monopoly.

Nations do not compete directly for business because the government is not in trade; nor does the State or the city. They compete in costs of production and the enterprisers of each nation, taking what costs their environment offers, endeavor to get to the market. There are good and poor enterprisers and not all deserve success. The great question is whether an in-

creasing number of them are getting into the market and that is determined by what conditions the nation, state, or city offers.

IMPROVED EDUCATION

Inasmuch as all production involves a combination of land (natural resources), labor, and capital, it follows that gains in production can be made by making each of these factors more efficient for this function. We have already given some attention to land or natural resources. There is probably as much gain to be made from improving the human element and as much danger from competitors who improve this factor faster than we as there is in the field of natural resources.

Aside from actual physical conditions the most important source of human improvement is education. In America, we have made surprisingly little adaptation of education to work to be done. We have regarded education as an end in itself rather than as a means. No doubt there is some justification for this in the fact that life is more than work. But life cannot be more than work — hard drudgery — for the mass of the people unless education for work is well taken care of. Materialism is not avoided by making material success impossible. Even in our professional schools

there is an alarming inefficiency as regards the end to be attained. Such education has in reality been a confused attempt to apply old methods and theories to a definite field; there are great gaps between the studies and the demands of the field.

As regards business training we have been in a reading and writing stage of civilization. We have thought that for the mass of workers reading and writing were enough and ordinary horse sense and experience would complete the education of the trained manual worker and the business man. The current idea of any business training beyond this is stenography and bookkeeping, that is, preparation for a subordinate, ten to fifteen dollar-a-week position.

If one of our competitor nations devises a comprehensive plan of training for work — special school and apprenticeship work in the manual occupations and thorough courses in the higher and more abstruse branches of business — their developing workers and business men will make all business practically an applied science; guess work will be supplanted by knowledge and system. Will our average citizen with his natural ability only be able to hold his own with men so trained?

Many writers recently have attacked our system of education for its lack of adaptation to needs. Some

excellent plans have been devised and in some cities superior work is being done. To one who looks at the whole situation, however, from the point of view of efficiency, it is pitiful. So much precious time of the young boys and girls is being wasted; so many are forced out of the system into positions of miserable rewards; and the enterpriser is so handicapped by those it offers him for employees!

To work out a proper system of education demands practically a generation of foresight. It amounts to plowing and sowing for a crop that is to be reaped ten to fifteen or twenty years hence and most of those controlling the school work see only as far as the next collection of taxes. American thought is so built around temporary profits that improvement in education must come slowly if at all. The failure to educate thoroughly the human factor is the second great danger confronting American business. This danger had become something of a reality in the competition in foreign and domestic trade before the war; yet we are allowing the present generation of children to pass through and out of the school without specific education, and this generation now in the school will have charge of American production for about 15 years.

LACK OF COÖPERATIVE SPIRIT

Another great weakness in American business springs from the inability of our enterprisers to coöperate. They persistently fail to obtain the economies and the aids possible through large scale operation. The only coöperation that has had much success among us is the coöperation of force or combination — one group of enterprisers buys out or drives out the competitors and so obtains the economies of large scale operation and perhaps monopoly profits. Gentlemen's agreements, pools, etc., have failed, not because the government fought them successfully, but because the enterprisers were unable to coöperate. Forced coöperation drives out of business or places in subordinate positions, the enterprisers that might have remained and continued to profit, had they had the coöperative spirit. The utter freedom which a part of society has had in appropriating the natural resources is a proof of the failure of producers to think through the problems of their costs and to devise extensive measures to keep down that part of them. The failure of city, state, and national governments to respond to the other needs of producers is further evidence. The average business man must be harassed by a special committee of his fellow citizens and perhaps by a pro-

fessional organizer before he is willing to contribute to his business bureau or the commercial club; then he must be further and continuously urged by the secretary to take interest in it. If one of his pet ideas is disregarded or if his toes are accidentally stepped on, he refuses to "play" any longer. The secretary, instead of being a specialist in city development, must be a politician to hold the members together in mere dues paying. Even when he does take an interest, the average member lets the wrong parties control.

LACK OF VISION

The city is liable to fall behind through lack of vision — not that it does not contain men of vision but that these do not control. The balance of power between conservatives and progressives is generally so even that a very little is needed to swing the whole city one way or the other, that is, in development. Each city contains within its limits the forces and the human factors that will produce expansion; it also contains forces and human factors that will cause it to stand still or retrogress.

The deciding factor is probably largely psychological, consisting mostly of the type of leaders chosen. The city may intrust itself to the older men, the men who have made money under other than the present

conditions. As a people we labor under the theory that the successful man can point the way to success. The proposition would be fairly safe if we included as successful only the men who are becoming, who are climbing up with the major part of their future before them, but what we are likely to do in practice is to consider those who have succeeded. There is a world of difference between the present and the past tense.

There is a turnover in business personnel every fifteen years. Men with new ideas force their way to the top and drive out the older men who could not adapt themselves to the new circumstances. After a few years these once progressive men lose their ability to cope with the changing affairs and a new crop of business men routs them out. A man can hang on to a monopoly, of course, as long as breath stays in his body, but most monopolists even wisely drop out in deference to the younger management. An idiot could keep control of such a business proposition as an English estate because all he has to do is to accept the rent collected by the solicitor. Practically all men in business fall into this comfortable situation or give up to others as they get on in years.

The man who has succeeded falls in time into a state of mind that temperamentally unfits him to guide a private business or counsel a city. He has succeeded

under past conditions and his success assures him that these conditions and the methods he used were about right. That these conditions may be bad for the unsuccessful and for the men climbing up is beyond his appreciation. His remedy would be: "Mold yourself to these conditions; accept them as proper." His wise words to the young and the city are made nostrums by the changed conditions. His fortune is out in the city in land, banks, and industries. His decisions are based on the daily or weekly balance sheet. The figures probably show improvement from month to month and this showing satisfies. A smaller return in the present for a larger long time profit is not in his thought. Marked success and the advance of age give the man an irresistible desire for certainty, for playing safe, for the regular dividend, and the gradually increasing bank balance.

The thought that builds up marked business success, on the other hand, must be daring, aggressive, catching a great idea ahead of the rest of the world and pushing it with faith and determination. It is willing to take chances; it sacrifices the present for the future. The possible temporary profits that might be squeezed out are left to grow into possible great returns in the future. It is easy enough to ride a certainty; every one is willing to do that and while there may be profit

in it, it is a dead, cold, hopeless thing, without a future. Business success must spring out of uncertainty and bring forth what has not existed hitherto.

In the past many cities have just grown like the children of thoughtless parents, but the period of that kind of growth has happily nearly reached an end. In the future they must be reared and the rearing must be entrusted to the young fathers rather than the grandfathers. Certainties in city growth are passing and in their place are coming the splendid uncertainties that call for the daring, forward looking type of mind.

The point is admirably illustrated in the comparative growth of the Mississippi River cities and the inland cities of 15,000 population and over in the State of Iowa. So far as external conditions are concerned these Mississippi River cities should have developed faster than the other class. They have great advantages in freight rates, being the basing points for traffic from the east; also there is the possibility of water transportation. The table following, however, shows how they have grown in population since 1885:

	Mississippi River Cities	Inland Cities
1885–1900	34%	70%
1900–1915	17%	67%
Thirty years	56%	185%

Until 1895 to 1900 these river cities contained great saw mills using the logs floated down the Mississippi from the virgin forests in Minnesota. They were also great distributing points for the developing country to the west because of the freight rates. The saw mills built up large fortunes, the concentration being the more marked, perhaps, because the timber was largely taken from the government lands and its taking required concentrated political power. The owners of these fortunes owned the river cities — land, business blocks, and utilities. They, of course, controlled the city governments. They had reached the certainty stage, and when the bottom fell out of the lumber business by reason of the exhaustion of Minnesota timber, these towns were left suddenly without their chief industry and with old successful leaders to find substitutes. The substitutes were not found with any degree approaching success. The factories in the general trend from the east to the west passed over them to the interior towns where younger and more enterprising men had control; the more able workers who could get away, left them. Before the lumber business failed, the Mississippi towns had been well known for those things that cause decay of the human factor on the basis that a business man's government and an open town were good business, on the basis

that it doesn't make any difference in what service a dollar turns so long as it turns. For the old men it turns easiest downhill and appears to bring the maximum profit. These river towns would have fallen behind just as certainly without the failure of the lumber business because their domination by old success made them relatively unprofitable places in which to produce. The lumber episode in their history had passed before 1900 and their growth from 1900 to 1915 ought to have been comparable to that of the interior cities, but it was only 17 per cent. as opposed to 67 per cent. If Davenport, a city which has exhibited some ability to throw off the old conditions, be omitted, the other five show an increase for this fifteen-year period of only 10.9 per cent.; two had more population in 1910 than in 1915.

Obviously no city can have a monopoly of success; there is no divine right about city development; consequently a city must ever be in the stage typified by the young business man who has passed several rungs of the ladder and looking out sees very much greater possibilities. It must have the vigor, dash, and thoroughness of this young man rather than the mind of the old man on the top of the ladder looking straight down. Old success from its position and its economic

power could see more and do more, but it never will. A city in the attitude of worship of old success will never give its producers the needed differentials.

Old success labors under the notion that conditions and people can be molded to its will. Having the power it will force this and buy that as it pleases, as it thinks will bring greater success. In city development its thought is to pull in more factories, buying them if necessary. If living conditions are bad, the people must endure them because change might have an adverse effect on the daily balance sheet. The remedy is ever more force, more compulsion. But force fails in city development as in every other kind of development where more intelligence and freedom have a chance to compete although its death may be slow. The hired factories rarely live up to expectations; the working people brought in under false pretenses, cannot be attached to the tenement; even if they could be chained up to the city, the result would in time be the same because the conditions would wear them down to the point where they could not be profitably used. A consumptive cannot be forced to do a fair day's work even if the force is so strenuous as the lash of hunger or the whip of chattel slavery; an ignorant, unskilled person cannot be forced to do

skilled work. There are some things that cannot be ordered to measure and prominent among these is a successful city.

CONCLUSION

These factors tend to cause the nation and, within the nation, the city to run down as production agents. Even if outside competition of a more virile, sensible people does not cut into their business, the nation and the city at the mercy of these factors, decays of itself. The production falls off; the people consume less; a state of depressed, hopeless living standards develops. At the same time the concentration of huge fortunes goes on apace. To the superficial observer wealth seems to be increasing rapidly because each year these great fortunes show increases and their owners climb to new heights of ostentation. Fortunately for the world, however, national and city wealth must grow at the bottom rather than the top; fortunately the nation which builds its people will triumph in production over its rivals. The South American countries, for instance, cannot be great producers because they have not built up their people; they are in the hands of concentrated wealth with a working population little above the status of slaves and the theory of the governing class must ever be more

exploitation. South America does not need capital as it is so often asserted in explanation of its industrial backwardness; it needs efficient people and an opening in the crust of monopoly control.

For the last two generations England has been known as the world's banker; yet in business competition with a nation starting with relatively little, England has been losing. Her tremendous export of capital has been hailed as a sign of national strength. The purse strings pulled from all corners of the globe, but is not the comparison of "the rats leaving a sinking ship" very near the truth? English capital was leaving England because the English production machine was relatively running down. Capital could earn more in Australia, South Africa, Canada, the United States than at home where it could be watched. England, the banking nation, the great exponent of the four dangerous factors which threaten America, was running down. France likewise was running down hill in production and her bankers were exhibiting "the strength of the nation" in immense foreign investments.

The war has shown how inferior banks are to good workshops, for the war has been an industrial contest. The Germans are said to have made relatively greater direct preparations, but even if this be granted,

they were surely discounted after one year of war. The Germans, however, were stronger in the second year than in the first in spite of the great handicaps in raw materials. Even if the German workshops should fail now, against a world in arms and in the factory, the war has been an unassailable test of the relative superiority of the German methods of production. These methods have involved strenuous slashes in external costs; they have involved some nationalization of formerly monopolized resources, improved education for the whole nation from top to bottom, unique coöperation among producers, and leadership with vision. In these things the German nation has not attacked productive business but has released it somewhat from shackles imposed elsewhere in the world. The fact that German imperialists tried to divert the advantages of these improvements to their own ends is, of course, another matter and has no bearing at all on the question of efficient production methods.

THE END

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